



In the National Interest

Australia's
Foreign and Trade Policy

White Paper



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ISBN 0 642 28129 7

Additional copies of the *White Paper* can be ordered from the Department of Foreign Affairs and Trade (Statistical Services)
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Design and typesetting by Brave Design Group

Printing by National Capital Printing

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Foreword



The Hon Alexander Downer,
MP Minister for Foreign Affairs



The Hon Tim Fischer, MP
Deputy Prime Minister and
Minister for Trade

This is the first White Paper on Australia's foreign and trade policy.

Its publication reflects the importance the Government attaches to informing the Australian Parliament and the Australian people of the policies, priorities and strategies which underpin the Government's approach to foreign affairs and trade.

This White Paper takes a longer-term perspective—looking forward fifteen years—to the forces which are most likely to influence Australia's external environment, and to the policy implications which flow from this. A key message of the paper is the great opportunities which the next fifteen years offer Australia. We should be realistic about the tough challenges ahead of us as we make our way in a much more competitive and complex global and regional environment. But we should also have confidence in Australia's capacity to shape the future to its advantage.

This is a framework document, not a compendium of the foreign and trade policy agenda, or of Australia's bilateral relationships. It focuses on the conceptual foundations of the Government's foreign and trade policy, examining the major challenges for Australia over the next fifteen years, and identifying broad strategies for dealing with them.

The paper does not address related resource and operational issues.

The way in which Australia conducts its foreign and trade policy is likely to change significantly over the next fifteen years, not only as the role of the public sector changes, but also as technology and other factors continue to transform the way in which governments manage information and conduct business. This will require changes to the way in which the foreign affairs and trade portfolio operates and to the skills which sustain it. Nonetheless, it is clear that Australia will need a high-quality and effective international network if it is to take full advantage of the opportunities of the next fifteen years.

We would like to acknowledge the very significant contribution made to this White Paper by an Advisory Panel of eminent Australians with broad experience in business, government and academia. The membership of the Advisory Panel is listed in Annex A. While the White Paper is of course a statement of Government policy, the advice and insight of the Advisory Panel were invaluable. We would also like to thank those representatives of State and Territory governments, business groups and non-government organisations who offered views on the White Paper.

Australia must have a foreign and trade policy that the Australian community understands and supports. Throughout this document we have sought to explain and to emphasise the contribution that foreign and trade policy makes to the advancement of Australia's core national interests: the security of the Australian nation and the jobs and standard of living of the Australian people. In this way we hope that the White Paper will contribute to a better understanding in the community of why Australia, more than most countries, must pursue an active and tightly focused foreign and trade policy.



ALEXANDER DOWNER

Canberra, August 1997



TIM FISCHER

Canberra, August 1997

Overview

1. Australia's foreign and trade policy is about advancing the interests of Australia and Australians. A clear sense of the national interest, an understanding of what is important for Australians, and confidence in the capacity of Australia to shape its future internationally define the Government's approach to foreign and trade policy.
2. Preparing for the future is not a matter of grand constructs. It is about the hard-headed pursuit of the interests which lie at the core of foreign and trade policy: the security of the Australian nation and the jobs and standard of living of the Australian people. In all that it does in the field of foreign and trade policy, the Government will apply this basic test of national interest.

Change and continuity

3. The policies and strategies set out in this White Paper represent both change and continuity. The national interest does not change with a change of Government. The priority accorded to the Asia Pacific, and especially to the countries of East Asia, the forging of close relationships with the United States, Japan, Indonesia and China, the commitment to further trade liberalisation, and strong support for the World Trade Organization (WTO) and APEC are among the important elements of continuity in the Government's policy framework.
4. A central feature of the Government's approach to foreign and trade policy is the importance it places on bilateral relationships as a means of advancing Australian interests. Bilateral relationships are not an alternative to regional and global efforts. All three approaches must be deployed in an integrated and mutually supportive way. The greater part of Australia's international efforts is, however, bilateral, and bilateral relationships are the basic building block for effective regional and global strategies. Further developing important established bilateral relationships, carefully nurturing newer relationships which engage key Australian interests, and expanding others which offer opportunities for Australia will be the core part of the Government's diplomatic activity.
5. Linked to the Government's focus on bilateral relations is a selective approach to the multilateral agenda. Australia must concentrate its involvement in multilateral issues in those areas where its national interests are closely engaged. In its multilateral strategies, as in its regional and bilateral efforts, Australia's international reputation is itself a factor in our capacity to advance Australian interests. An international reputation as a responsible, constructive and practical country is an important foreign policy asset.
6. Australia must be realistic about what multilateral institutions such as the United Nations system can deliver. International organisations can only accomplish what their member states

enable them to accomplish. If the reach of the UN system is not to exceed its grasp, it must focus on practical outcomes which match its aspirations with its capability.

7. Australia has global interests which require a foreign and trade policy of broad scope. The priority the Government attaches to its relationships with the countries of the Asia Pacific does not diminish the important interests Australia must pursue in the Americas, Europe and elsewhere.
8. Nor does closer engagement with Asia require reinventing Australia's identity or abandoning the values and traditions which define Australian society. Australia draws unique strength from the interaction of its history and geography. Australia's geography offers the prospect of closer integration with the fastest growing region in the world. Its history and culture not only give Australia strong links to Europe and the United States, with which Australia shares important economic and strategic interests, but also enhance Australia's value to East Asia as a business and regional partner. Similarly, Australia's close ties to East Asia, and its position as one of the most East Asian-oriented economies in the world, are assets in our relations with Europe and the United States. Australia does not need to choose between its history and its geography.
9. National interests cannot be pursued without regard to the values of the Australian community, including its support for fundamental human rights. Central to these values is an unqualified commitment to racial equality and to the elimination of racial discrimination. The rejection of racial discrimination is not only a moral issue, it is fundamental to Australia's acceptance by, and engagement with, the region where its vital security and economic interests lie.

A confident Australia

10. Australians should have confidence in Australia's capacity to shape its future. Australia brings many economic, strategic and cultural strengths to the pursuit of its foreign and trade policy objectives. The Government will ensure that these assets are properly marshalled and strategically directed in support of Australia's national interests.
11. Australia is a significant economy, bigger in absolute size than all those in the region to our north except Japan, China and the Republic of Korea. It is among the world's most important commodity exporters, and a crucial supplier of industrial raw materials, energy and food to East Asia.
12. Australia has a strong skills base, high-quality education and training institutions, advanced physical infrastructure, and information technology adoption and usage rates which are among the highest in the world. Australia has strong civil institutions which underpin a free society and encourage free enterprise. Australia's cultural diversity gives Australian society a vigour and capacity to adapt rapidly to new opportunities. It is also a rich source of language and other skills which are a significant advantage in doing business in a global economy.

13. Australia's defence capability is significant in regional terms. We have a broadly based alliance relationship with the United States whose strategic engagement and commitment underwrite the stability of East Asia. Australia shares a close and expanding partnership with Japan, which is the most powerful economy in East Asia, and with Indonesia, the largest country in South East Asia.
14. Being confident about Australia's future does not mean being complacent. Australia can not rest on its strengths. Domestically, there is much that remains to be done to improve Australia's international competitiveness so that Australia can expand and diversify its trade and investment. Internationally, Australia will be facing, over the next fifteen years, a much more competitive global trading and investment environment, a changing strategic environment, domestic pressures in many countries to slow the pace of trade liberalisation, as well as uncertainties in some key regional countries. As the countries of East Asia grow, Australia's relative economic standing in the region will change. Australia will remain a major regional economy but it will have to work hard and creatively to advance its strategic and economic interests, and to influence the regional agenda.

Facing the new century

15. The two most profound influences on Australian foreign and trade policy over the next fifteen years will be globalisation, and the continuing economic rise of East Asia.
16. Globalisation offers huge opportunities for internationally competitive economies, but also brings in its wake challenges for political and economic management. It has profound implications for trade policy. It blurs the division between foreign and domestic policy, increases competitive pressures in markets, and makes globally based trade rules and disciplines even more important.
17. The Government's judgement is that economic growth in industrialising East Asia will continue at relatively high levels over the next fifteen years. This means that the countries of East Asia will become even more important to Australia as trade and investment partners, and in security terms. It also has implications for Australia's relative standing in the region, and significant consequences for the broader relativities of power and influence in the Asia Pacific and beyond.
18. China's economic growth, with attendant confidence and enhanced influence, will be the most important strategic development of the next fifteen years. How China manages its economic growth and pursues its international objectives, and how other nations, particularly the United States and Japan, respond to China will be crucial issues over this period.
19. The United States will remain, over the next fifteen years, the single most powerful country in the world, with the largest economy and the most advanced technology. The Government's judgement is that the United States will also continue to see its best interests being served by

maintaining its strategic engagement in East Asia, where it has vital security and economic interests. The relationships among the United States, Japan and China will be key determinants of regional stability. The growth in economic and political influence of others in East Asia, notably the Republic of Korea and Indonesia, is also likely to affect the dynamics of regional security.

Strategies for the future

20. The Government's foreign and trade policy objectives over the next fifteen years will be geared towards exercising leadership on the issues which advance Australia's economic and strategic interests. This involves ensuring that Australians enjoy the growth in jobs and higher living standards which come from an internationally competitive economy; that Australia's region remains secure and stable; that Australia maximises the economic and strategic opportunities offered by even closer engagement with the Asia Pacific region; and that Australia's policies reflect confidence in the nation's strengths and values.
21. Promoting the interests of Australia also means providing consular assistance to Australians overseas, a responsibility the Government takes very seriously.
22. Australia's history, geography, strategic circumstances and economy combine in a distinctive way and make an active foreign and trade policy essential. Australia has global interests and will not withdraw from the global economy or limit its horizons exclusively to its immediate region. Australia's future depends largely on its capacity to sustain a foreign and trade policy of broad scope. For a trading nation such as Australia, the alternative to active participation in the global economy and the affairs of its region is irrelevance and decline.
23. While the spread of Australia's interests is wide, each of these interests is not equally important and nor can they be pursued with equal resources. Care is needed in setting priorities. The Asia Pacific is the region of highest foreign and trade policy priority for the Government. Within the Asia Pacific, Australia's most substantial interests are with the region's three major powers and largest economies—the United States, Japan and China—and with our largest neighbour—Indonesia. Significant Australian interests are also engaged in our relationships with the Republic of Korea, the other ASEAN states and, in the South Pacific, New Zealand and Papua New Guinea.
24. The strategies canvassed in this paper embrace action at the bilateral, regional and multilateral levels. Emphasis is also given to coalition building—putting together issues-based coalitions of countries to pursue a shared objective—as an important means of increasing Australia's leverage, and complementing our enduring alliances and partnerships.
25. The Government's strategy for advancing Australia's security interests is based on a hard-headed assessment of the security of the Asia Pacific region. Its key components are

maintaining a strong national defence capability, the alliance relationship with the United States, expanding Australia's bilateral, regional and multilateral security links, and strengthening Asia Pacific-wide regional security institutions, of which the ASEAN Regional Forum (ARF) is the most significant. The Government will also be working to ensure that the international regimes covering weapons of mass destruction—nuclear, chemical and biological—are implemented and, where necessary, strengthened.

26. The Government's trade strategies will focus on bilateral efforts, APEC, and the WTO. Each has a contribution to make to increasing Australia's standard of living through expanded trade and investment. None offers the only way ahead, and all three will be needed if Australia is to improve its trade performance. Other practical steps, such as closer links between CER (Australia's economic relations agreement with New Zealand) and the ASEAN Free Trade Area (AFTA), will also be pursued.

Integrating domestic and international strategies

27. Central to the strategies in this paper is adopting a whole-of-nation approach which emphasises the linkages between domestic policies and foreign and trade policies.
28. An integrated policy framework is crucial to enhancing Australia's international competitiveness. In a global economy the competitiveness of the Australian economy will be the single most important determinant of Australia's future. It is the benchmark against which both domestic and international policy must be measured.
29. Economic strength is crucially linked to measures such as a more flexible labour market, investment in research and development, strengthening education and training systems, developing appropriate infrastructure, and implementing effective savings and taxation policies. Foreign and trade policy advances Australia's economic interests through improving access to overseas markets for Australian goods, services and capital, and helping Australian business to identify and develop export markets.
30. Advancing Australia's interests is a task for all Australians, not just their governments. It is a task which requires communication and consultation among governments at all levels, businesses and the community. If Australia's foreign and trade policies are to succeed, they must meet the needs and reflect a close understanding of the interests of all Australians. As the Government has demonstrated in the changes it has made to the processes for consulting on treaties, it is committed to better channels of communication with those whose interests are affected by international negotiations and agreements.
31. In the period after the Second World War, Australia showed that it could adapt to radical changes by reshaping the priorities of its foreign policy and the focus of its trade. In the period

after the Cold War, Australia should retain confidence in its capacity to grow and adapt. In a twenty-first century in which Asia will be a prominent influence, Australia's interests are best served by forging the closest links with the countries of the Asia Pacific. And, in a global economy, Australia's interests are best served by a global perspective and active international engagement underpinned by actions which strengthen Australia's capacity to compete successfully.

CHAPTER ONE

THE NATIONAL INTEREST

1. A country's perception of its national interests is shaped by its geography, history, strategic circumstances and economic profile, as well as by its values. In Australia's case these elements combine in a distinctive way.
2. Australia's standard of living, like that of many countries, derives in large measure from its capacity to trade and invest globally. However, its economic profile as a highly developed economy with a strong commodities base is unusual. And, while all countries accord their highest foreign policy priority to their immediate region, in the case of Australia the geographic scope of its regional interests is particularly broad. Australia does not belong to a closely knit regional grouping. Australia's most important strategic and economic interests lie in a region—the Asia Pacific—of great cultural and historical diversity. This region covers South East Asia, North East Asia, the Pacific, and the eastern reaches of the Indian Ocean. Australia's biggest markets are in North East Asia. Its main strategic ally is the United States, and it has close historical, political and investment links with Europe.

Australia has interests across the globe but its most important strategic and economic interests lie in the Asia Pacific.

Security interests

3. Australia's security interests go well beyond the physical protection of Australian territory. For the foreseeable future Australia is not likely to face the direct use of armed force against it. The security of Australia, however, requires more than safety from attack. For Australia, security also means preserving its capacity for independent decision-making, thereby ensuring it can pursue national objectives without external coercion. More broadly, Australia's national security and its economic interests are inextricably linked to the security and stability of the Asia Pacific region.
4. Australia is a continent facing three oceans, and the area where Australia's security interests are engaged is extensive. It embraces South East Asia, the South West Pacific, Antarctica, and the eastern Indian Ocean. It also includes North East Asia because the security of South East Asia cannot be separated from the rest of East Asia and

Australia's security and its economic interests are inextricably linked to the security and stability of the Asia Pacific.

because of the direct consequences of instability in North East Asia for Australia's well-being. Any threat to the security of East Asia—from tensions through sanctions to war—would have immediate and adverse effects on Australia's trade with its major export markets and, consequently, on the jobs and standard of living of individual Australians. Over the next fifteen years these points of inter-connection between the security and economic dynamics of the region will grow, as will the web of inter-related security interests in the Asia Pacific. This is the basis for the high priority the Government places on an active Australian role in efforts to ensure regional security.

Global security

Global issues, especially the proliferation of weapons of mass destruction, have significant security implications for Australia.

5. While Australia's strategic environment is shaped mostly by developments in the Asia Pacific region, global issues can also have significant security implications for Australia. The risk of global conflict has diminished considerably with the end of the Cold War, but other potential threats remain. Developments in Europe and the Middle East still have the potential to disrupt global security. Serious instability in South Asia or Central Asia would have implications for the security of the Asia Pacific.
6. Prominent among the threats to global security is the proliferation of weapons of mass destruction. Australia has a strong national interest in ensuring that nuclear weapons do not spread further, especially in the Asia Pacific region. These non-proliferation concerns form the basis for the Government's support for the eventual elimination of all nuclear weapons. It is also in Australia's security interests that chemical and biological weapons be banned and that terrorism be contained. These measures warrant support because they make Australia more secure by removing potential threats not only to our national territory but also to that of the Asia Pacific region and beyond.

7. Nor should Australia's security interests be seen exclusively in terms of potential military threats or regional conflicts. Over the next fifteen years it is likely that even more attention will be paid to so-called non-military threats such as pandemics, illegal migration, refugee flows, environmental degradation, narcotics and transnational crime. For many countries these are a more immediate concern than the prospect of invasion or military intimidation. They reinforce the importance of taking a broad view of security which goes beyond military and defence issues. They underline the linkages between poverty and instability, and the need to pursue policies of trade and investment liberalisation and sustainable development which help to create growth and increase incomes. They also underline the contribution that effective development cooperation programs can make to growth and stability.

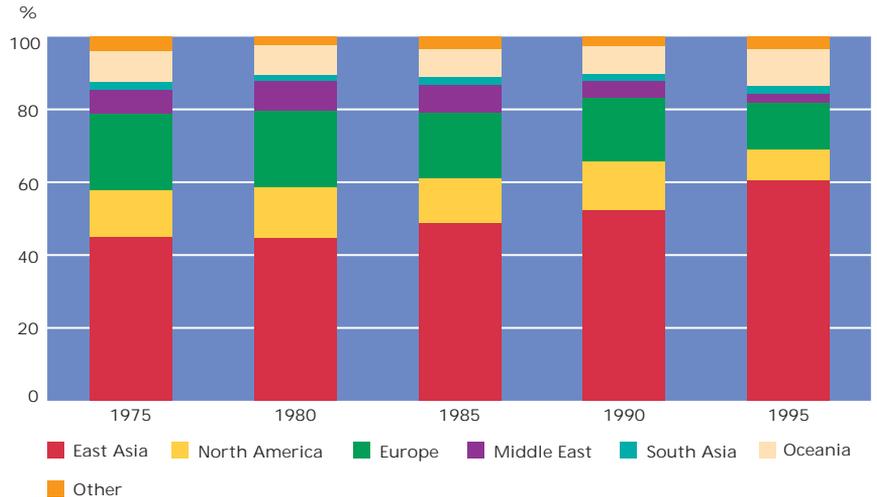
Economic interests

8. The economic well-being of Australia—the jobs and standard of living of individual Australians, and the social cohesion they engender—is fundamental to Australia's foreign and trade policy.
9. As with Australia's security interests, Australia's economic interests are most closely engaged in the Asia Pacific region. Three out of four of Australia's export dollars are earned in APEC markets, which are also the destination of over half of Australia's foreign direct investment. In both security and economic terms, there is no region where more significant Australian interests are engaged. This will not change over the next fifteen years. Indeed, as the industrialising economies of East Asia continue their high growth rates, the primacy of the Asia Pacific in Australia's foreign and trade policy will become more evident.

Australia's economic well-being depends on a competitive economy and open international markets. As East Asia continues to grow, the primacy of the Asia Pacific in Australia's foreign and trade policy will become even more evident.

THE ASIA PACIFIC GROWS AS A DESTINATION FOR AUSTRALIAN EXPORTS

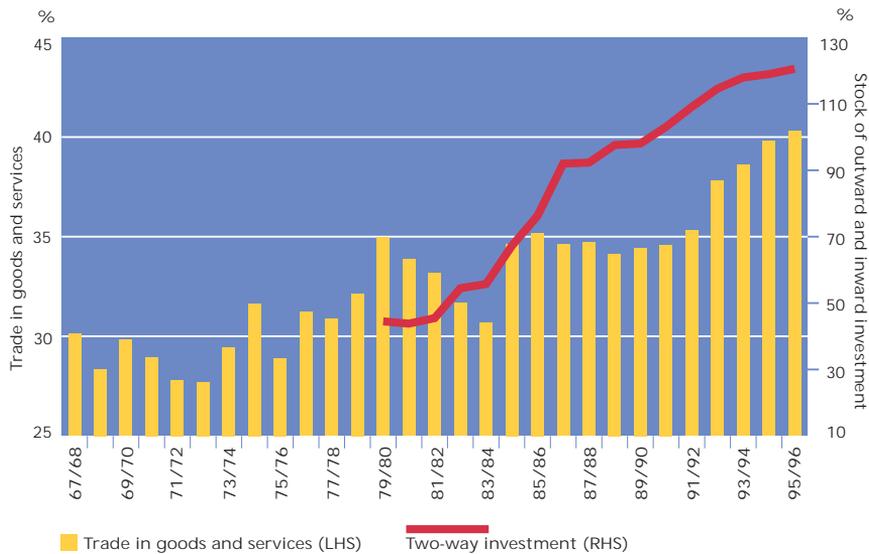
Direction of Australia's merchandise exports by geographical region



10. Australia's economic well-being depends on domestic and international factors, especially the competitiveness and flexibility of the Australian economy, and the strength of international markets and their openness to our exports and investment. Australian interests therefore require action on all these fronts.
11. Domestic economic policies and business actions will have the greatest impact on Australia's competitiveness and productivity. The Government is committed to creating a more productive economy, through fiscal consolidation, keeping inflation low, creating a more adaptable labour market, cutting the regulatory burden faced by business, and lifting the efficiency of infrastructure, including transport and energy delivery. However, as Australia becomes more integrated into the world economy, trade and investment will contribute more to Australia's overall economic well-being. Already, trade and investment account for a significant share of GDP, one that is expected to continue growing.

TRADE AND INVESTMENT GROW IN IMPORTANCE FOR AUSTRALIA

Trade in goods and services, and stock of outward and inward investment as shares of GDP



Why trade and investment are important

12. Trade and investment are important for Australia and create benefits for individual Australians. Trade allows Australia to focus on producing goods and services in which it is most competitive. Not only are Australian businesses of all sizes thus able to grow and create more jobs by exporting, but Australian producers and consumers gain from having a wider choice through imports of products and services at lower prices. The standard of living of consumers increases, while producers benefit from reduced input costs.
13. Export growth can contribute to reducing Australia's current account deficit. The main means of reducing the deficit is through increasing the rate of saving, but trade policy can play a useful complementary role. Achieving higher savings requires Australians to save proportionately more and consume proportionately less. Stronger export growth can facilitate this by increasing the level of national income, thereby enabling current levels of consumption and standards of living to be maintained during the transition to a higher saving economy.

Trade allows more jobs to be created and the standard of living to rise. Investment overseas is an increasingly important component of trade. Inward investment will continue to be vital for economic growth.

Exports Create Jobs...

A 1996 survey of Austrade's exporter clients showed that, as a result of exporting, nearly sixty per cent either had increased employment or expected to do so. Sixty-four per cent expected improved profitability as a result of exporting. Likewise, an Australian Bureau of

Statistics 1996 survey of the growth and performance of small and medium-sized enterprises showed that a higher proportion of exporting businesses increased employment than non-exporting businesses.

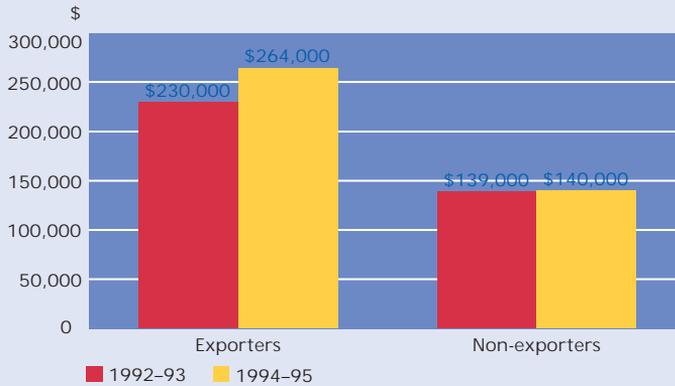
...that Pay More

As well, manufacturing surveys by the Australian Bureau of Statistics show that firms that export are more productive per employee than firms that do not export and that

employees working on export-related jobs are paid more. The surveys also show that the pay gap between exporters and non-exporters increased during the 1990s.

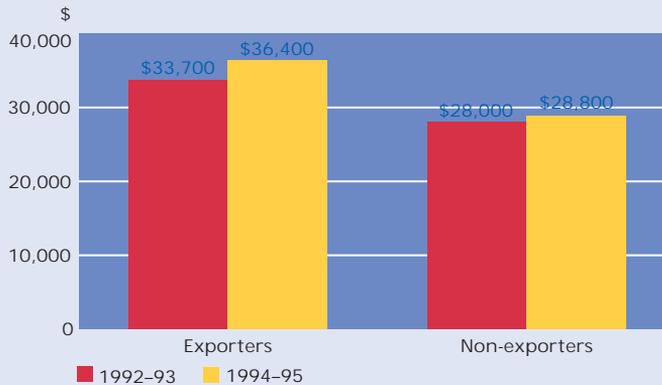
EXPORTERS EARN MORE...

Average sales per employee of exporters and non-exporters



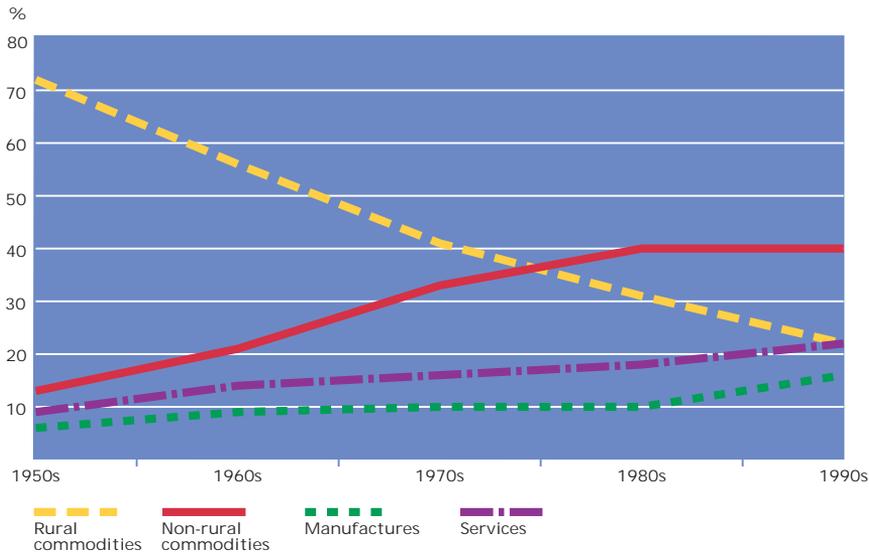
...AND PAY MORE

Average wages per employee of exporters and non-exporters



HIGH VALUE-ADDED EXPORTS INCREASINGLY IMPORTANT

Sectoral shares of Australia's exports



14. Investment in overseas markets is also in Australia's interests. Trade success increasingly requires complementary investment in export markets, particularly for firms exporting services and for materials needing further processing. Typically, investing in an on-the-ground presence is necessary for trading in services. Such investment can generate significant exports and therefore directly and indirectly generate income and employment in Australia. Overseas investment is also important for the future of individual firms—it enables them to diversify and spread risk and to overcome the constraints of the relatively small Australian market.
15. Inward investment will continue to be vital for economic growth. Historically, Australia's savings have not matched the demand for capital, and foreign investment has been essential to make up the shortfall necessary for Australia's economic development. Inward investment can enhance Australia's productivity, thereby improving the competitiveness of businesses in Australia. Inward investment also brings new technologies, ideas and techniques to propel the economy's growth and skills. Therefore, it is in Australia's interest to ensure its attractiveness as a destination for investment, especially in high value-added activities.

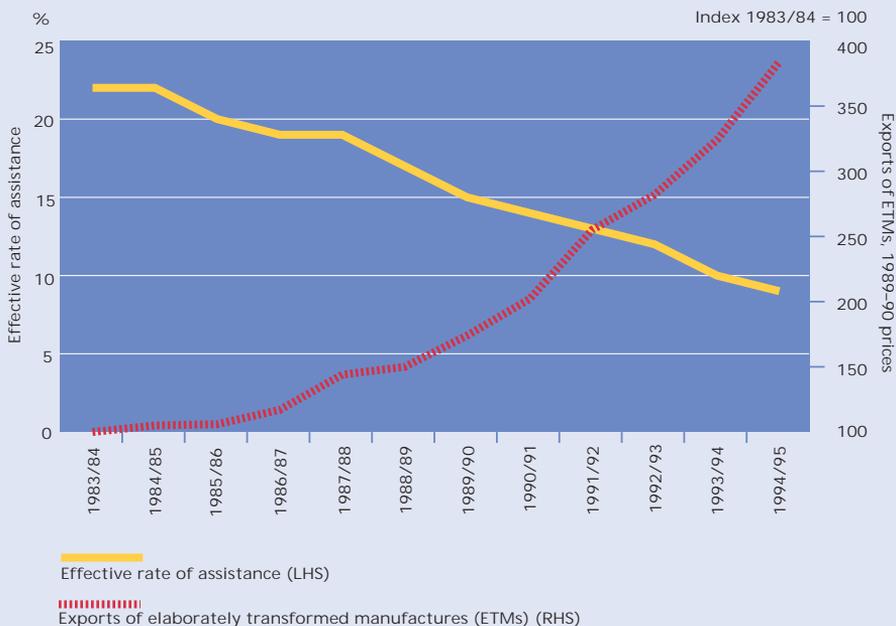
Lower Tariffs Make Australian Firms More Competitive

As protection has fallen, manufacturers have responded to the more competitive domestic environment by increasing productivity and are making inroads into international markets. Cuts in tariffs on medical and scientific equipment show how, over time, lower tariffs enhance productivity and competitiveness, and can strengthen employment. Between 1987 and 1996, tariffs on these items fell from as high as 30 per cent to 5 per cent or less. The

initial effect was to reduce jobs in this sector, but the enduring trend was to increase the competitiveness of firms in the sector, with exports of medical and scientific equipment more than doubling from \$300 million in 1987 to \$700 million in 1996. Employment too has grown in this sector since 1993-94 and, importantly, these jobs are highly skilled and highly paid.

EXPORTS GROW AS PROTECTION IS REDUCED

Effective rates of protection for manufacturing and indexed growth of exports of ETMs



Why trade and investment liberalisation matters

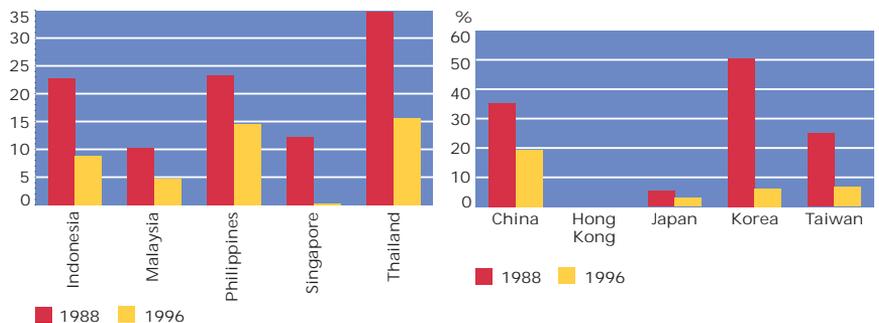
16. As Australia depends increasingly on international trade and investment to sustain and increase its standard of living, trade and investment liberalisation—lowering tariffs and other barriers to trade and investment—is in Australia's best interests. This is the case both domestically and in other countries. For example, both Australia and New Zealand gain from the increased trade caused by the removal of almost all trade barriers between the two countries under the Closer Economic Relations Agreement (CER).
17. Lower barriers world-wide create opportunities not only for the goods and services which Australia directly exports, but also for goods which other countries produce using inputs from Australia. These goods include clothing made from Australian wool, steel made from Australian iron ore and coal, and motor vehicles using Australian engines and other parts. As well, Australian firms export banking, accounting, legal, transport and logistics and other services, and facilitate trade and investment that may not directly involve Australia. Consequently, it is vital for Australia that barriers are reduced not only for the goods and services it exports but also for the goods and services that its trading partners export.
18. Lowering tariffs and other barriers to trade and investment is an important contributor, together with further reforms of Australia's economy, to increasing the prosperity of Australia and individual Australians. Because of these benefits, the Government remains committed to global trade liberalisation, including meeting the objectives of free and open trade and investment in the Asia Pacific as set out in the APEC Bogor Declaration. However, lowering tariffs and other barriers to trade is not easy or uncontentious. The Government appreciates that firms, industries and markets sometimes need time to adjust to change.
19. The benefits from liberalisation also explain why many barriers to trade have been dramatically reduced. Like Australia, many countries recognise the benefits of lowering tariffs and other forms of protection. In our region, for example, ASEAN countries cut applied tariffs on a trade-weighted average by about two-thirds between

Trade and investment liberalisation, domestically and overseas, benefits Australia. Other countries also benefit from lowering their own barriers, and are doing so.

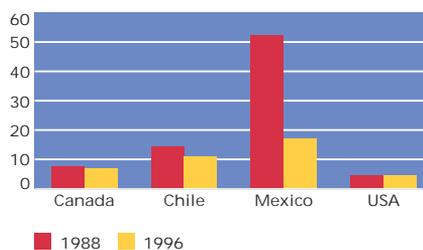
1988 and 1995. China's average tariff rate has come down from 35 per cent in 1988 to below 20 per cent in 1995, although non-tariff barriers remain a problem. Negotiated concessions, including through the Uruguay Round of trade negotiations, have also reduced barriers. For example, Japanese and Korean markets in citrus fruit, beef and rice now are more open as non-tariff barriers have been reduced. Average tariff levels were 40 per cent in developed countries when the General Agreement on Tariffs and Trade was formed in 1948 and will be under four per cent after Uruguay Round commitments come on line.

OTHER COUNTRIES ARE ALSO REDUCING THEIR APPLIED TARIFFS

All products, trade-weighted average

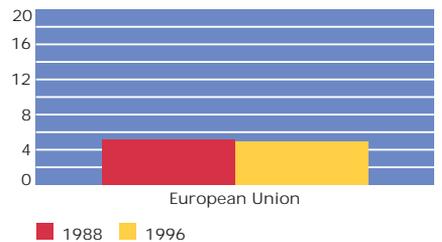


In South East Asia...



in the Americas...

in North East Asia...



and in Europe

- 20. More needs to be done, but these changes already substantially benefit Australian exporters and consumers. The share of Australia's industrial exports facing zero tariffs will more than double (from 20 per cent to 43 per cent) when the Uruguay Round commitments are fully implemented. The Industry Commission estimates that this and other market access Australian companies gain from the

Uruguay Round could add about \$3.7 billion per year to Australia's national income, and \$5 billion a year to Australian exports once commitments are fully implemented.

National values

21. A government's first duty is to provide for the security and well-being of its citizens, including through consular protection. However, these are not the exclusive focus of foreign and trade policy. In a democracy, governments must also act to give expression to the aspirations and values of their national communities in foreign policy as much as in other areas of government.
22. The values which Australia brings to its foreign policy are the values of a liberal democracy. These have been shaped by national experience, given vigour through cultural diversity, but reflect a predominantly European intellectual and cultural heritage. They include the rule of law, freedom of the press, the accountability of the government to an elected parliament, and a commitment to a "fair go".
23. Australia's values strengthen its foreign and trade policies. They enable Australia both to sustain traditional links to Europe and North America and to forge stronger ones with Asia. The pursuit of Australia's interests in the Asia Pacific does not require a surrendering of Australia's core values. The ethnic, religious, historical and cultural diversity of the Asia Pacific region shows that differences in values do not preclude the effective pursuit of common interests.
24. Central to the values to which the Government gives expression is an unqualified commitment to racial equality and to eliminating racial discrimination. This is a non-negotiable tenet of our own national cohesion, reflected in our racial diversity, and it must remain a guiding principle of our international behaviour. The rejection of racial discrimination is not only a moral issue, it is fundamental to our acceptance by, and engagement with, the

Australia's foreign policy reflects Australia's liberal democratic values, including an unqualified commitment to racial equality and to eliminating racial discrimination.

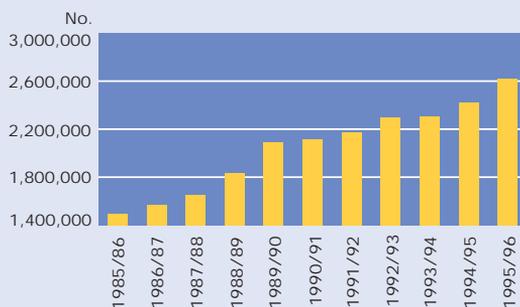
Consular and Passport Services

Promoting the interests of Australians also means providing services to Australians overseas. The provision of consular and passport services is an essential responsibility of the Government. In 1996-97, the Department of Foreign Affairs and Trade provided some 13,000 Australians with consular assistance overseas and in Australia, and issued 900,500 travel documents. Australia is a world leader in providing secure passport services and the Government is determined to maintain this position. Consular and passport operations will continue to be an area of increasing work for the Government as more Australians travel and live overseas. The number travelling overseas has almost doubled over the last ten years, a trend which is expected to continue. In addition, tens of thousands of Australian citizens now work and reside abroad, and this number too is likely to grow as a globalising economy draws on skills and expertise from around the world.

The Government regards it as a fundamental duty to extend appropriate assistance to Australians in need of consular services. While there are obvious limitations on what Australian consular officials can do in circumstances where foreign laws must be observed, the Government is determined to improve the consular services provided to Australian citizens. The Government has established a Consular Response Group to manage particularly complex cases. It has expanded the network of honorary consuls. It is committed to the further development of international consular sharing arrangements and is also trialling 24-hour consular staffing operations to enhance further the delivery of consular services to Australians in need.

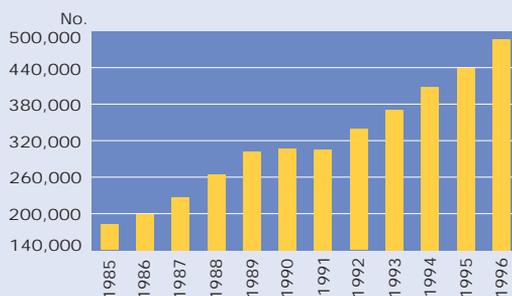
MORE AUSTRALIANS TRAVEL OVERSEAS ...

Short-term departures by Australian residents



BUSINESS TRAVEL INCREASES MORE RAPIDLY ...

Short-term departures by Australian residents for business



... AND MORE PASSPORTS ARE ISSUED EACH YEAR

Actual and forecast numbers of passports issued



region where our vital security and economic interests lie. Racial discrimination is not only morally repugnant, it repudiates Australia's best interests.

25. On questions of race, as on other issues which go to the values of the Australian community, Australia's international reputation matters. Australia has a direct national interest in an international reputation as a responsible member of the international community, committed to the rule of law, ready to assist in cases of humanitarian need, and a constructive contributor to the economic development of its neighbourhood. An international reputation as a thoughtful and creative country, genuinely committed to the peace and prosperity of its region, and a source of practical ideas enhances Australia's capacity to influence the regional and global agenda in ways which promote the interests of Australia.

Human rights

26. The Government views human rights as an inseparable part of Australia's overall foreign policy approach, both because the treatment of human beings is a matter of concern to Australians and because promoting and protecting human rights underpins Australia's broader security and economic interests. The Government's human rights policies are based on the universality of fundamental human rights—civil, political, economic, social and cultural.
27. There are grounds for some confidence that human rights improve with economic growth. Respect for human rights is generally a force for stability, not least because it tends to moderate political behaviour. At the same time, the relationship between economic growth and political freedoms is a complex one and should not be reduced to a simple equating of economic growth with political liberalisation.
28. The Government recognises that, on occasions, support for human rights will create difficulties in Australia's bilateral relationships, including in our commercial relations. The best means of managing such difficulties is to focus on practical measures and to address

The objective of human rights policy should be to make a practical difference, not to posture.

human rights concerns in the context of a sound overall bilateral relationship. Linking human rights to trade serves neither Australia's trade nor its human rights interests.

29. Australia must be realistic in assessing what can and cannot be achieved in pursuing particular human rights issues. The objective of human rights policy should be to make a difference on human rights, not to posture. In promoting human rights, the Government's priority is practical efforts that can directly improve the human rights situation on the ground. These include development cooperation programs, assisting in establishing national human rights machinery, encouraging bilateral, regional and multilateral discussion of human rights issues, and working to develop and strengthen the effectiveness of regional and international human rights institutions and instruments.
30. An important practical approach to improving human rights is to support the development of human rights institutions. A growing number of countries, including within the Asia Pacific region, have established national institutions with responsibility for protecting and promoting human rights and the rule of law. Australia supports these bodies through training and shared expertise, and through the informal Asia Pacific Forum of National Human Rights Institutions. The Government is funding the Australian Human Rights and Equal Opportunity Commission to provide a secretariat for the Forum.
31. The Government is committed to the establishment of a Centre for Democratic Institutions that would focus on fostering the development of democratic processes and institutions, especially in the Asia Pacific region. This would involve providing practical training and technical assistance relating to issues such as electoral and parliamentary procedures, as well as the rule of law. The Government also strongly supports creating an International Criminal Court. This would be an important step forward for the international community in dealing with serious offences such as genocide, war crimes and crimes against humanity.

CHAPTER TWO

FACING THE NEW CENTURY

32. In formulating foreign and trade policy for the next fifteen years, the Government must make judgements about the challenges Australia is likely to face, and about the forces which are most likely to shape Australia's international environment.
33. Views diverge about where current trends are likely to lead. Some paint an optimistic future of growing international convergence and cooperation driven by an interdependent global economy and the liberating influence of the communications revolution. Others warn that, with the end of the Cold War, we could face renewed clashes between civilisations or even a return to the law of the jungle. Some regard the current ascendancy of market economics in developing and former communist countries as a precursor to the eventual ascendancy of political liberalisation and democracy. Others foresee a breakdown of social and political cohesion in developed countries provoked by electors resentful of the pain of economic restructuring, high unemployment and growing income disparities. Some see the best chance yet for significantly reduced poverty as more and more developing countries adopt high-growth, market-based strategies. Others question whether rapid economic growth is sustainable, and warn that failing to share the fruits of growth and to protect the environment will lead to global political instability.
34. These various scenarios underline that Australia will face a range of challenges during the next fifteen years. The important policy issue for the Government is to identify the major trends which will shape the international environment, and the implications of these trends for Australia's national interests and the way in which they are pursued.
35. This is necessarily a selective exercise. Many developments, such as the end of the Cold War, the rise of regionalism, population movements, environmental degradation, and the ascendancy of market economics will continue to influence Australia's external environment over the next fifteen years.
36. However, two trends stand out as particularly significant for Australia. One is globalisation, underpinned by a communications revolution that will continue to transform the way in which people

Globalisation and the economic rise of East Asia will be the two most profound influences on Australia's external environment over the next fifteen years.

work and live. The second is the changing relativities of power and influence which flow from the economic rise of East Asia. Neither trend is new or immutable, but the Government considers both will profoundly influence Australia's foreign and trade policy over the next fifteen years.

Globalisation and the communications revolution

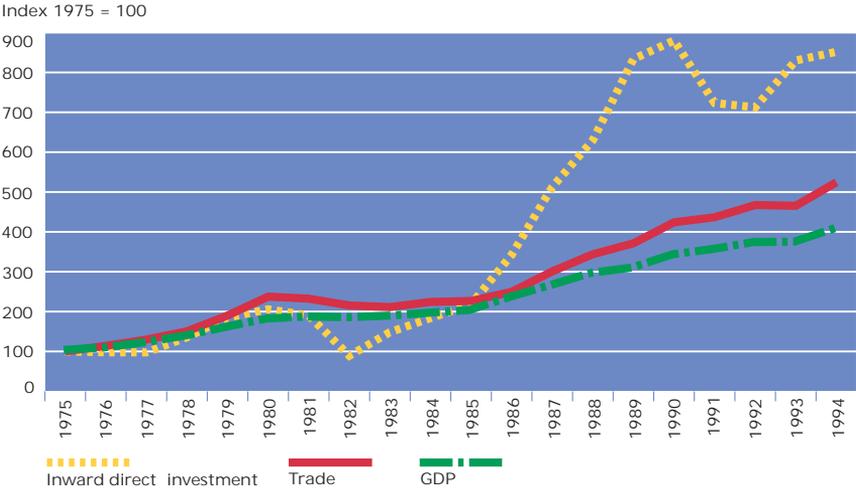
Globalisation is not new, nor is it just an economic phenomenon: it has important political and social dimensions.

37. Globalisation has characterised the latter part of the twentieth century and will continue into the twenty-first. A defining feature of globalisation is the way in which business operates: firms increasingly organise their activities on a global scale, forming production chains, including services inputs, that cross many countries and greatly increase global flows of trade and investment. Globalisation is not new, nor is it just an economic phenomenon: it has important political and social dimensions. It is driven by many factors, of which technology, the related mobility of people, goods and ideas, and a liberal trading environment are perhaps the most important.
38. The increasingly global activity of firms has implications for trade policy. It reinforces the importance of open markets and focuses attention on national regulatory structures as potential obstacles to the efficient allocation of global resources through international trade and investment. It creates pressures on markets to be more open to competition, and it makes globally-based trade rules and disciplines even more important.
39. A global economy is emerging at an unprecedented pace. This is reflected in part in a massive increase in international financial flows; the rate of growth of international trade, especially in the services sector, which is expected to account for 27 per cent of world trade by 2010 compared with 21 per cent now; the growth of transnational corporations (30 per cent of world trade is intra-firm trade); the increasing ease of business travel and the international

movement of labour; and increases in foreign direct investment flows, which have grown more rapidly than trade during the past ten years.

WORLD TRADE AND INVESTMENT GROW FASTER THAN THE WORLD ECONOMY

Indexed growth of global GDP, exports and inward direct investment



- 40. New technology makes linking financial markets and processing massive volumes of financial transactions ever cheaper. It engenders new forms of electronic trading, including through the Internet. It links currency markets more completely and enables financial markets to judge instantly the policy settings and decisions of national governments. Fundamentally, the communications revolution means that no economy stands alone.
- 41. Improved communications have hastened the pace of globalisation and will significantly drive economic and social change over the next fifteen years. The effective use of these new technologies will be a key determinant of economic competitiveness, as well as military capability.
- 42. An openness to new technology, a culture which promotes innovation, and a well-educated population will become critical competitive advantages. So also will be access to the centres of technological innovation, which over the next fifteen years are likely to remain predominantly in the United States, and to a lesser

extent in Japan and Europe. Countries which nurture their intellectual infrastructure will be well positioned in the information age. The distinction between the technology-rich and the technology-poor will be sharp.

43. Globalisation blurs the division between domestic policy and external policy. Not only are national policy settings judged by the international marketplace, individual companies—irrespective of whether they are exporters—are increasingly subject to the disciplines of international best practice. Globalisation makes further integration with the global economy even more essential to advancing Australia's national interests. It also makes reform of the Australian economy essential: continuing reforms are crucial to the international competitiveness of Australia in a global economy.

Globalisation, interdependence and national sovereignty

Globalisation is not an inevitable march towards global political interdependence.

44. Globalisation is not a single unified trend, nor is it an inevitable march towards global political interdependence. On the one hand, global communications and global markets bring the world closer together, reinforcing interdependence. On the other, contrary forces such as resurgent nationalism, ethnic rivalries, and inward-looking regionalism are also at play.
45. Technological change facilitates the spread of ideas. Easier, cheaper, faster and more widely available communications make it possible for proponents of policies and plans to disseminate their ideas more rapidly and more broadly than ever before. Wider access to timely information makes government policy more contestable. This has implications for the way in which governments formulate and communicate policy.
46. However, globalisation has not caused the nation state to be displaced as the primary force in international relations. Nor has it swept aside national economies. The international financial market is not ungovernable, and law making is still the prerogative of states. National governments must still endorse international agreements. The power of national governments may become more

circumscribed in the future but the nation state is far from dead, and sovereignty is still cherished. This is unlikely to change significantly over the next fifteen years.

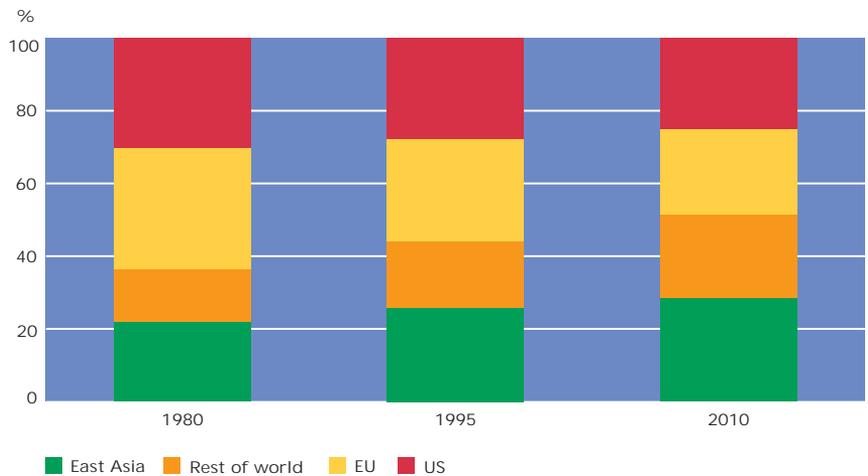
47. Globalisation brings in its wake many difficult issues of political and economic management. Some see it challenging economic sovereignty. It creates winners but also losers. In developed economies there is already a growing sense of resistance to what is perceived as the ceaseless demands of the market for restructuring and cost-cutting. Unemployment caused by economic change has led to some questioning of policies of trade liberalisation and, in a few quarters, to calls for a return to protectionism.
48. Managing the politics and economics of globalisation will be a major challenge over the next fifteen years. The benefits and importance of outward-looking policies need to be explained and communicated effectively. Staying the course on economic and trade liberalisation is crucial to the pursuit of Australia's national interests.
49. Although there is abundant evidence that trade liberalisation and an open economy contribute significantly to economic growth and job creation, often the public perception is the reverse: that reductions in tariffs and other trade liberalisation measures lead to job losses. This is because the benefits of liberalisation are usually more widely spread and are often less immediately apparent than the costs of liberalisation for particular firms or industries, even though the net effect is beneficial. In addition, rapid technological change, structural adjustment and ongoing improvements in productivity drive a continuous process of change and turnover in employment.
50. This is a trend in all industrialised economies. Without export growth, however, unemployment rates could have been even higher during this period of exceptionally rapid change and adjustment. Trade liberalisation, far from being part of the problem of unemployment, is very much a crucial part of the solution.

The rise of East Asia and the changing relativities of power and influence

The economic growth of East Asia and the strategic, political and social consequences are transforming international relations.

51. The economic growth of East Asia, and the strategic, political and social changes accompanying this growth, are seminal developments for Australia, the Asia Pacific and the world.

EAST ASIA'S ECONOMIES ARE FORECAST TO BECOME MORE IMPORTANT
Actual and forecast shares of global GDP

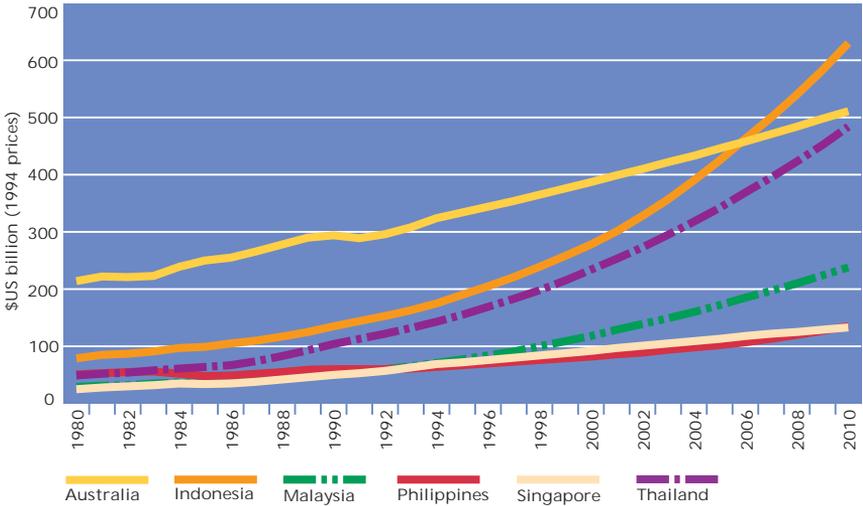


52. Ten years ago only one East Asian economy (Japan) was larger than Australia. By 1995 this number, measured in \$US GDP terms, had risen to three (Japan, China and the Republic of Korea). By 2010, according to forecasts by the Centre for International Economics¹, Taiwan and Indonesia will join this list. Only a few years ago Australia's GDP was larger than all the Association of South East Asian Nations (ASEAN) countries combined. By 2010 the GDP of ASEAN's five largest economies will be about three times that of Australia.

¹ A private Australian economic research agency.

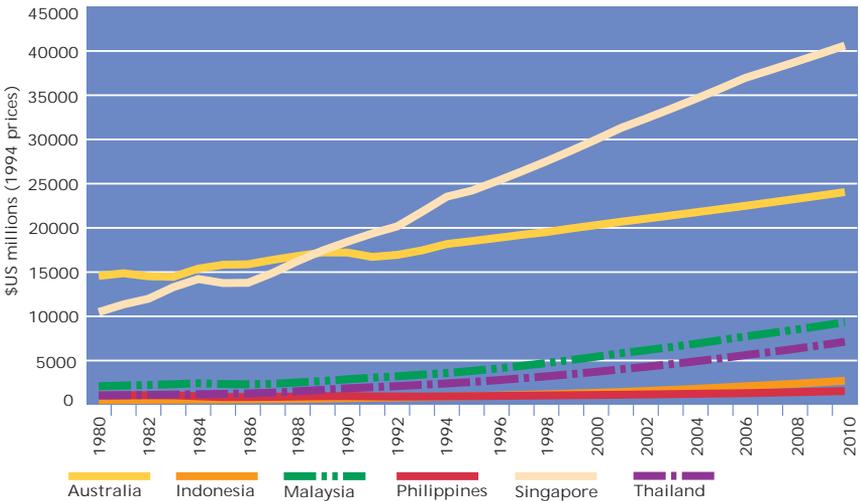
AUSTRALIA'S ECONOMY COMPARED WITH ITS NEIGHBOURS'...

Actual and forecast real GDP



...AND ITS PER CAPITA GDP COMPARED WITH ITS NEIGHBOURS'

Actual and forecast real GDP per capita



53. East Asian economic growth has already changed the economic and strategic dynamics of the region. As many East Asian countries grow rapidly over the next fifteen years, the dramatic shift already underway in the centre of gravity of world economic production will continue. The old Atlantic-centred global economy, built around the

India: A Growing Economy

India's economy has expanded rapidly during recent years. Domestic economic liberalisation and a much more positive attitude to foreign investment have resulted in a more open economy. Providing these policies are maintained, it is likely that India too will follow an East Asian growth trajectory. While not in the "tiger" class, growth of seven per cent annually in recent years and forecast

growth averaging six per cent per annum for the next decade will place India among the world's ten largest economies by 2010. With economic growth and closer links with the Asia Pacific, India will become a more significant influence in regional and global affairs, and a more important trading and investment partner for Australia.

economic strength of the United States and Europe, is beginning to accommodate a new centre of power and influence with different cultural traditions. The growing confidence of East Asian countries is increasingly a feature of international relations, with implications beyond the region. It will alter the balance of power and influence in multilateral institutions from the United Nations to the World Trade Organization. It is leading Europe and other regions to give more attention to, and take more account of, East Asia.

Continuing strong economic growth

54. A fundamental issue for Australia is whether economic growth in East Asia is likely to remain strong over the next fifteen years. The rates of growth over the past two decades have been unprecedented in economic history, but several constraints could prevent them from being sustained. Alongside the political uncertainties which could emerge in some East Asian countries, there exist some potentially serious factors that might complicate the management of economic policy such as worsening current account deficits combined with high debt levels and weak and protected domestic financial sectors. Other potential uncertainties include shortages of skilled labour and physical infrastructure, environmental degradation, and institutional weaknesses.
55. Even allowing for these uncertainties, continuing high rates of saving, emphasis on education and strong prospects for foreign investment suggest that it is more likely than not that economic growth in most of the industrialising countries of East Asia will remain at high levels over the next fifteen years. This should be particularly the case relative to other parts of the world. The World Bank forecasts growth in East Asia (excluding Japan) over the next decade at 6.8 per cent compared with 2.4 per cent for Western Europe and North America.
56. The continuing differential in growth rates between Australia and industrialising East Asia has implications for Australia's relative standing in the region. In terms of economic size, and technological and industrial sophistication, Australia will remain a significant regional country. However, the gap in these areas with

Australia will benefit from expected continuing strong growth in many East Asian countries but will have to work hard and creatively to advance its interests.

industrialising East Asia will narrow over the next fifteen years. Consequently, Australia will be able to rely less on its strategic and economic weight in the region to achieve its policy objectives. It will have to work hard and creatively to maintain its security, advance its economic interests and influence the regional agenda.

57. None of this is to diminish the overwhelmingly positive influence which growth in East Asian countries represents for Australia and the region, not only in terms of market opportunities but also the wider stability and prosperity of the region. Continuing growth in East Asian countries means that this region should become even more important to Australia in trade and investment terms.
58. Countries which are economic partners of East Asian countries will have tremendous opportunities to benefit from and contribute to their growth. Australia is already one of the most East Asian-oriented economies in the world in terms of the pattern of its trade growth. Australian exports to East Asia account for 60 per cent of Australia's total exports. The quality of Australia's political and economic relationships with the countries of the East Asian region is vital to Australia's prosperity. It will become even more so over the next fifteen years.

East Asian growth and regional security

Rapid economic growth is also changing the security environment in the Asia Pacific.

59. The end of the Cold War has shifted the global strategic landscape from a bipolar balance to a more complex strategic situation, particularly in the Asia Pacific. Here, rapid economic growth, too, is changing strategic relativities among regional countries. The uneven distribution of such growth among regional countries may exacerbate political, economic and cultural differences in ways which could create new sources of instability.
60. The regional security environment will also be affected by how well regional countries manage the evolution of political and social institutions as economic growth changes societies. As middle classes grow in size, they are likely to influence domestic politics more significantly. This will add to the complexity of politics and the range of issues with which governments will need to deal.

It may require greater attention to be given to questions of social welfare, the environment and human rights. Handling these pressures will challenge the development of institutions and the maintenance of consensus.

61. The remarkable economic growth of East Asia has been an overwhelmingly positive development for the region's peace and prosperity. But rapid growth has also enabled countries to increase their military expenditure. Throughout the region armed forces are making the transition from their earlier roles in internal security and national development to the more outwardly oriented roles of defence of national sovereignty and protection of national assets. The higher levels of military expenditure in the region increasingly provide regional countries with more effective means to protect assets, including in areas where land and sea territorial claims overlap. This adds to the risk of conflict in the region.

The Asia Pacific powers

62. Over the next fifteen years the changing relationships among the major powers (United States, China, Japan and, in the longer term, India and Russia) will largely determine the nature of the Asia Pacific strategic environment. At the same time, the growth in economic and political influence by others in East Asia, notably the Republic of Korea and Indonesia, is also likely to affect the dynamics of regional security.
63. China's economic growth, with attendant confidence and enhanced influence, will be the most important strategic development of the next fifteen years. China is expected to be among the world's three or four largest economies within the next fifteen years. How China manages its economic growth and pursues its international objectives, and how other countries, especially the United States, Japan, the Republic of Korea and the ASEAN countries, respond to China, will be crucial issues over the next fifteen years.
64. In this period, the United States will remain the single most powerful country in the world, with the largest economy, the most advanced technology and, by a large margin, the most advanced armed

China's economic growth and enhanced influence will be the most important strategic development in the next fifteen years. The relationships among the United States, China and Japan will be crucial to the region's security.

Are Resources and Food a Potential Cause of Conflict?

Energy sources, prices and routes of supply will continue to be a major focus of strategic considerations for the international community. The International Energy Agency forecasts an increase of between 30 per cent and 50 per cent in total world primary energy demand by 2010. China alone is expected to almost double its consumption of oil and coal in that period. In spite of these increases, past experience and current production projections suggest that, from an economic standpoint, the world should not experience shortages of energy or sustained dramatic price increases over the next fifteen years. An important factor is that open markets and the consequent better allocation of resources lead to more energy-efficient production.

Energy issues, however, also have important strategic and political dimensions. Historically, disputes over energy and concerns about the safety of the sea lanes that carry energy supplies have provoked international tensions and disputes. Sovereignty disputes over land or sea territories show heightened potential for conflict when those territories are known or expected to contain energy resources.

Australia is a leading exporter of energy, especially coal and liquefied natural gas, reflecting its comparative advantage and reliability as a supplier. The Government will work to ensure that Australia maintains these advantages. It will also be working to contain

and manage energy-related security risks by promoting open energy markets and through its support for regional mechanisms which address the underlying security issues. Such measures will be particularly important for the peaceful development of resource-poor East Asian countries, where economic growth will require significantly greater access to reliable energy supplies.

Similarly, food security issues will concern the international community as populations rise, particularly in developing countries. As with energy issues, the answer to food security is not protectionism to promote self-sufficiency in food production, but removing barriers to international agricultural trade thereby giving consumers reliable access to the agricultural products of efficient agricultural producers such as Australia. Distribution of food and the resources or capacity to access available food supplies are also key issues.

Over the next fifteen years, Australia will continue to work with like-minded countries, including members of the Cairns Group of agricultural fair traders, to remove the distortions of world agricultural markets which result in food supply shortages and exacerbate food access and distribution problems. From Australia's viewpoint, food security is not only a key trade issue but also has the potential to affect regional security if food shortages were to threaten stability.

forces. Within East Asia, US strategic engagement in the region is widely regarded as a crucial stabilising influence, and an indispensable condition for the continuing strategic stability on which the region's economic success is ultimately dependent. Without it, regional countries might seek significantly to expand their defence capability in a destabilising way, and uncertainty on the Korean Peninsula would increase.

65. The Government's judgement is that the United States will continue to see maintaining its engagement in East Asia, where it has extensive economic and strategic interests, as in its own best interests. The United States will sustain its regional alliances, and retain the capability and intent to protect its regional interests and meet its security obligations. The nature of US engagement may, however, alter and it is possible that the profile of US forces in Korea and Japan might change if Korea is unified or as US force structure and strategic planning doctrines evolve, and military technologies develop.
66. Over the next fifteen years, Japan is likely to remain the largest Asian economy and Australia's largest export market. Japan will become increasingly integrated with the developing economies of East Asia. Its alliance with the United States will continue to play a pivotal strategic role by helping to maintain a long-term US strategic presence in North East Asia.
67. While Japan is likely to move cautiously in expanding its own military role, it will continue to make a positive contribution to regional security in other ways. Japan's diplomatic profile will grow over the next fifteen years and it will use its increasing diplomatic influence—including as the world's largest aid donor—to underpin the regional and global order. The effectiveness of Japanese and US policy towards China, and China's handling of its relations with them, will be key determinants of the future stability of East Asia.
68. India will become more important as its links with East Asia and the rest of the world deepen, as they are likely to over the next fifteen years. India is currently undergoing a profound reorientation of its economic and trade policies towards market reforms and trade

Population Pressures

Population issues will pose difficult problems for the international community over the next fifteen years. The United Nations estimates that world population will increase by about 90 million people per year until well after the year 2000. Over 90 per cent of this increase will occur in developing countries. The most dramatic population problems will be in Africa but, in many countries in the Asia Pacific and South Asia, population growth will exceed rates of economic growth.

Unsustainable population growth will increase demands on infrastructure and the

environment in these countries. In some cases, it could generate pressures on the stability of governments and, if not addressed, threaten refugee outflows. Australia will continue to have a strong interest in working with regional countries, particularly through its development cooperation program, to help ensure that population issues are addressed and do not undermine regional security and economic development. Australia's assistance will continue to be provided on the basis of a non-coercive family planning policy.

liberalisation. Its economic development is potentially an engine for economic growth in South and Central Asia and will also have implications for strategic balances both in the Asia Pacific and Indian Ocean regions.

69. Russia's external attention will continue to be drawn mainly westwards, not least towards crucial security issues such as enlargement of the North Atlantic Treaty Organisation (NATO). This western orientation and its continuing preoccupation with domestic issues suggest that Russia is unlikely to be a major influence in the Asia Pacific in the short term. However, in the medium to long term Russia must be seen as a significant country in the Asia Pacific. As Russia puts its economic house in order, its interests in its Pacific seaboard will increase, potentially to the advantage of Australia's trade and investment interests. The Government will encourage Russia's constructive role in Asia Pacific affairs, recognising that Russia will continue to operate at a global level, and that an East Asian focus could help lock in Russia's economic transition. The working out of Russia's longer-term relations, not only with the United States but also with China, Japan and India, will be important for the security of the Asia Pacific.

CHAPTER THREE

SHAPING AUSTRALIA'S FUTURE

70. The quality of Australia's future over the next fifteen years and beyond will be determined largely by its own efforts. Australia cannot rely on others to promote the interests of Australia. Securing a future requires a willingness and a capacity to engage the world, and thereby to influence the events which shape the future. It also requires Australia to make best use of its assets.

Marshalling Australia's assets

71. Australia brings significant assets to the pursuit of its foreign and trade policy interests. Australia's history shows that on issues of importance to it, Australia can exert considerable influence if it sets out to do so.
72. Since the Second World War, Australia has benefited greatly from its relatively high international profile and from the close alliances and relationships it has developed with many of the world's most influential countries. Australia is recognised as one of the most active members of the World Trade Organization; enjoys good access in the capitals of the major powers in Asia, North America and Europe; has been a key participant in the development of regional institutions such as APEC and the ASEAN Regional Forum; is an active member of the United Nations, the OECD and the Commonwealth; and has a strong record of achievement and influence in multilateral diplomacy, particularly in the areas of disarmament and arms control.
73. Australia's influence owes much to this activist tradition of foreign and trade policy, and the skills and experience which accompany it. It is, however, the economic, strategic and cultural strengths which Australia brings to the pursuit of its foreign and trade policy interests which underpin Australia's influence.
74. Australia is the fourteenth-largest economy in the world and the fifth-largest economy in the 18-member APEC forum. The Australian economy is bigger in absolute size than all those in the region to our north except Japan, the Republic of Korea and China. It is larger than any economy in Latin America with the exception of Brazil.

Australia must seek to shape the future. It has considerable assets—economic, strategic and cultural—to draw upon.

With economic growth in some developing East Asian economies likely to run well above the levels of growth of a mature Australian economy, some of these relativities will change over the next fifteen years, but not to the extent of challenging Australia's standing as a major regional economy.

75. Australia is a crucial supplier of industrial raw materials, energy and food to a number of important East Asian economies. It is among the world's most substantial commodity exporters, being the world's biggest exporter of coal, wool, aluminium, and lead, and the second or third-biggest exporter of iron ore, nickel, gold, meat, sugar and cotton.
76. A further major economic asset is Australia's strong skills base sustained by quality educational and training institutions. This is an essential feature of the intellectual infrastructure of Australia and one that Australia needs to nurture and develop further. So too is expanding its research and development capability, which can increase productivity, Australia's ability to broaden its export base, and its capacity to attract foreign investment.
77. Australia's physical infrastructure is relatively advanced, with sophisticated telecommunications, transport and financial services sectors. Australia's information technology usage rates are among the highest in the world. It has a record of inventiveness and a long history of innovation in adapting technology to suit national circumstances. This openness to new information technology is important to Australia's capacity to engage in international activities from business to education and culture. It is particularly important to the competitiveness of Australia's services sector and knowledge-based industries.
78. Australia has the sixth-largest land mass in the world and, if maritime areas encompassed by exclusive economic zones are included, Australia is arguably the largest country in the world. More significantly, as an island and a continent to itself, Australia enjoys several strategic advantages, including the protection which derives from a sea/air gap.

79. Australia's defence capability is significant in regional terms. Australia has close and friendly relations with all the major countries of East Asia. There is no strategic relationship closer than that which Australia shares with the United States, whose strategic engagement and commitment underwrites the stability of East Asia. Australia shares a close partnership with Japan, which is the largest economy in East Asia, and which plays a pivotal role in maintaining the US strategic presence in East Asia. Australia also has a close and expanding relationship with Indonesia, the largest country in South East Asia and a key influence in regional affairs.
80. An important Australian cultural asset is the vigour and capacity to change and adapt which is a feature of immigrant cultures, particularly those that value ethnic and cultural diversity. Australia's success in managing the changes that have come with immigration is a significant strength, both domestically and internationally. This cultural diversity is also an advantage in doing business in a global economy. It gives Australia European and Asian language skills, cross-cultural expertise, and international connections which strengthen its capacity to trade and to deal internationally. It has made Australia a more outward-looking nation, and a more open economy has also meant a greater flow of people and ideas into and out of Australia.
81. This is not to suggest that Australia can afford to be complacent about its future. Over the next fifteen years, Australia will face a much more competitive trading and investment environment, a changing strategic environment, increased competition in East Asian and other markets, continuing international resistance to further trade liberalisation, and internal uncertainties in some key regional countries.
82. The Government is working to meet these challenges and to improve Australia's economic standing. Promoting labour market flexibility and higher savings are key elements of the Government's approach, as is nurturing a business culture in which international competitiveness is the norm and where many more companies in Australia seize export opportunities. These issues are examined further in Chapters Four and Five.

INTERNATIONAL STRATEGIES

83. This section examines some of the broad international strategies the Government will implement over the next fifteen years. The remainder—bilateral relationships and their key role as a building block for other strategies—is covered in Chapter Four. In Chapter Five we examine the closely related domestic strategies.
84. The strategies outlined below are not detailed blueprints. They are overarching strategies for dealing with some of the key policy issues Australia is likely to face over the next fifteen years. They are not action plans in the sense of check lists of specific actions. These would be of limited value over a fifteen-year period. Instead, the following strategies are flexible in their implementation and focus, so they can adapt to new and unforeseen developments which will inevitably arise. They should be considered in conjunction with the shorter-term foreign and trade policy strategies set out in other Government documents such as the Foreign Affairs and Trade portfolio's program performance statements and the annual *Trade Outcomes and Objectives Statement*.

Strategies for advancing Australia's security interests

Regional security

85. As noted in Chapter Two, at present the strategic trends in the Asia Pacific are, on balance, positive. The region could, however, move in a different direction. The dynamics of the region would be very different if, for example, economic growth were to falter seriously, or if there were to be any significant deterioration in the relationships among the region's major powers, particularly the United States, China and Japan.
86. The Korean Peninsula, with both sides heavily armed, will continue to threaten regional stability. Deterioration of North Korea's

economy could well lead to a crisis in that country, involving a high humanitarian cost and requiring external assistance. It is likely to hasten the reunification of the two Koreas, which is a distinct possibility over the next fifteen years. Reunification in turn would have implications for Korea's economic growth and for the strategic outlook of the region.

87. Regional security could also be disrupted if one of the many territorial disputes in the region were to flare up; if there were conflict across the Taiwan Straits; if there were serious internal instability in China or Indonesia; if countries of the region were to reverse their support for US strategic engagement or if that engagement were to come under threat because of domestic pressures in the United States.
88. Such scenarios may not be likely but, in relation to both the Korean Peninsula and to territorial and sovereignty issues in the region, the past few years have shown that tensions can rise sharply. These scenarios underline some of the challenges that Australian policy might face over the next fifteen years.
89. The key components of Australia's regional security strategy are maintaining a strong national defence capability, the security alliance with the United States, developing bilateral defence and security relationships with countries throughout the Asia Pacific, and strengthening multilateral security links in the region, especially the ASEAN Regional Forum (ARF). Promoting sustainable economic growth in the region is also crucial to regional stability.
90. Australia's national defence capability is its ultimate means of defence against attack and contributes to regional stability. By having a strong defence capability and a non-aggressive defence policy, Australia provides a "secure south" for East Asia and a "secure west" for the South Pacific. In this sense, Australia's defence capacity reinforces its strategic objective of strengthening the security of its region. As previously noted, having a regionally significant defence force also enhances Australia's national status and regional standing. This in turn strengthens Australia's capacity to influence the regional security agenda, and developments in the region more generally.

The current stability of the Asia Pacific could be threatened by a range of possibilities. Australia's regional security strategy includes a strong national defence capability, alliance with the United States, partnership with others and effective regional structures.

ASEAN Regional Forum (ARF)

The ARF brings together most of the countries which influence or are involved in the security of the Asia Pacific region, including the United States, China, Japan, Russia and India, as well as Australia, the Republic of Korea, New Zealand and all the ASEAN countries. It is an important step towards the creation of a sense of strategic community in a region where there is little history of inclusive multilateral approaches to security or defence. It also has an important role to play in encouraging regional support for international regimes against the proliferation of weapons of mass destruction and their missile delivery systems.

The Government does not regard regional approaches to security as a replacement for strong bilateral security arrangements. Nor does it view cooperative regional approaches as inconsistent with bilateral alliances. The two are mutually supportive: both contribute to regional peace and stability.

The Government will be working in the ARF to develop norms of regional behaviour aimed at avoiding conflict and settling disputes without resort to the threat or use of force.

The Government will also encourage the ARF to take a more central role in discussing and managing issues that threaten stability or confidence. One way to achieve this would be through establishing voluntary mechanisms upon which regional states could draw to prevent differences from becoming disputes, and disputes from leading to armed conflict. In the longer term, Australia would see value in the ARF developing a conflict resolution capacity.

The Government will also take an active role in expanding the ARF's confidence-building agenda. Practical cooperative measures, including in defence-related areas, contribute to greater transparency and understanding of strategic perceptions and defence planning and acquisition programs amongst regional countries. This can in turn help to avoid an arms race in the region. There is scope to expand such confidence building measures. In doing so it will be important to continue to involve military officers and defence officials at a senior level.

91. Australia's alliance with the United States is not only important to its national defence capability, it also deters potential enemies and reinforces US strategic engagement which is the linchpin of regional security. The practical security benefits of the alliance include intelligence, access to advanced military systems, joint training and exercises, supply and support arrangements, and industrial and scientific cooperation.
92. Australia has close defence and security cooperation with regional countries, especially in South East Asia. These range from Australia's defence alliance with New Zealand, its close security relationship with Papua New Guinea, and the Five Power Defence Arrangements (Australia, Malaysia, New Zealand, Singapore and the United Kingdom), to the Agreement on Maintaining Security between Australia and Indonesia, the arrangements between Australia and Singapore for the use of Australian defence training facilities, and to the range of cooperative activities that the Australian Defence Force undertakes with regional countries.
93. A further important element in the Government's security strategies is the establishment of regular bilateral security dialogues with countries in East Asia. These consultations provide an opportunity to share views on a wide range of regional security issues. They complement multilateral mechanisms dealing with regional security issues, promote transparency and reinforce Australia's commitment to working cooperatively with regional countries on security issues. The Government is committed to expanding these dialogues as part of its long-term strategy of promoting shared security perceptions in the Asia Pacific region.
94. This mix of national, bilateral and regional approaches will remain core elements of Australia's security strategies over the next fifteen years. They constitute a network of links and contacts which the Government will be looking to expand even further. They should also be seen in the broader context of a multi-faceted approach which recognises the linkages between regional integration and regional security. Australia's security interests are, for example, served by strengthening regional institutions, pursuing outward-looking and growth-creating trade and investment policies,

encouraging habits of dialogue, expanding institutional linkages, and facilitating people-to-people links within the region. This is the sense in which the Government seeks security in and with the region. This multi-faceted approach involves complementing Australia's national defence capability, bilateral security arrangements and regional defence cooperation with an active Australian role in fostering regional integration and shaping the regional security institutions which are emerging in the Asia Pacific. Foremost among these is the ARF.

Global security

The Government will focus on international regimes to prevent the proliferation of weapons of mass destruction.

95. The focus of Australia's security strategies over the next fifteen years will be the Asia Pacific region, where Australia's security interests are most directly engaged. However, Australia also has an interest in global developments which impinge on its national security and the security of its region. Regional security is closely linked to global security, and the efforts which Australia makes in support of regional security contribute in turn to a more secure global environment.
96. Prominent among the global security issues which impinge on Australia's security and that of its region is the potential for the proliferation of weapons of mass destruction—nuclear, chemical and biological.
97. The international community, with major Australian contributions, has made significant progress in establishing international regimes to prevent the proliferation of nuclear, chemical and biological weapons and of missiles and to prohibit nuclear testing. The Government's future efforts will be concentrated on ensuring that these regimes are implemented and remain effective and, where necessary, are strengthened. The Government will continue to be active in support of international negotiations on a global treaty banning use, stockpiling and transfer of anti-personnel landmines. It will also continue to support practical measures such as landmine clearance programs, assistance to victims and improved demining technology to tackle the humanitarian disaster caused by landmines.

Strategies for advancing Australia's economic interests

98. Trade strategies cannot be separated from Australia's other international and domestic strategies. They must be pursued in an integrated and mutually reinforcing way. The absence of conflict is in most circumstances a precondition for trade, just as the economic growth and rising living standards which flow from trade can be a force for stability.
99. Over the next fifteen years, Australia's trade strategies will continue to draw on bilateral, regional and multilateral means. Each has a contribution to make. None offers the only way ahead. All three will be needed if Australia is to improve its trade performance and thereby increase the living standard of Australians. Here we look at regional and multilateral strategies; bilateral strategies are covered in Chapter Four.

Bilateral, regional and multilateral strategies are all essential elements of the Government's trade policy.

Regional strategies

100. Regional approaches to trade continue to increase in importance, especially in the Asia Pacific as the East Asian economies grow rapidly. Asia Pacific Economic Cooperation (APEC) has developed quickly as the pre-eminent economic institution of the Asia Pacific region. Its contribution, however, goes beyond trade and investment issues. It is among the strongest forces for further regional integration and so promotes strategic stability. It promotes cooperative approaches among the major powers of the Asia Pacific. It is the only forum which brings together leaders from across the Asia Pacific. These meetings contribute to habits of consultation and dialogue, and the development of personal relationships, which are necessary to the strengthening of trust and confidence among regional countries.
101. APEC is the most significant regional forum in which Australia participates, and will remain a key element in Australia's regional strategies over the next fifteen years. It has set its own long-term goal through the commitment in the Bogor Declaration to free and

APEC is the region's preeminent economic institution and a strong force for further regional integration. The Government is committed to implementing the Bogor Declaration for free and fair trade and investment.

Regional Trade Arrangements

Existing bilateral and multilateral approaches to trade policy, together with APEC, have served Australia well. For the future, however, Australia will keep an open mind about new approaches, including preferential free trade arrangements. In keeping with its hard-headed approach to trade policy, the Government will take the course that will bring Australia the most substantial gains in market access in the shortest time frame.

The Government recognises that regional trade arrangements offer potential advantages for their participants. They can promise broader and deeper liberalisation. Compared with global negotiations, they are perceived as being able to go further faster, and are more likely to include “new issues” arising from the globalisation of economic activity. They can also reduce trade friction among participants by facilitating trade.

In considering any preferential free trade arrangement, however, the choices for Australia are not and would not simply be ones of economic calculus. They would also raise significant foreign and strategic policy issues.

It is also the case that regional trade arrangements can impose costs on members and non-members. Firms within the arrangement can find it more difficult to obtain their imports from the most efficient source. Firms outside can face discrimination, including in their access to regional markets. Costs to global exporters such as Australia can be higher because of a plethora of competing regional rules.

Of particular concern is the potential fragmentation of the non-discriminatory trading system which could arise from discriminatory arrangements. The Government will accordingly work actively to promote stricter multilateral rules and disciplines on regional trading arrangements but it recognises that its impact on this is likely to be limited. The Government will also seek to make the multilateral system, and APEC, move faster to reduce the incentive for discriminatory regional solutions to market access.

open trade and investment by 2010 for industrialised economies and 2020 for developing economies. The Government remains committed to this goal, which, if met, would bring considerable long-term benefits for Australia and the region.

102. The Government does not anticipate significant change to APEC's organisational structure or size in the short to medium term. Too rapid an expansion of APEC's membership could substantially inhibit its capacity to achieve its ambitious trade and investment liberalisation goals.
103. The promise of APEC will not be delivered easily. It will need to overcome some significant obstacles: liberalisation fatigue arising from the political reaction in some APEC economies against the pace of change; the diverting effect of alternative possibilities of regional and sub-regional preferential arrangements; and the difficulties of maintaining cohesion and a shared sense of priorities over a long period of time in a diverse group.
104. The best recipe for the success of APEC is success. To keep up its impetus, APEC must liberalise trade and investment and reinforce this with practical achievements to facilitate trade. The Government will work in the short and medium term to ensure substantial progress in the liberalisation programs of individual APEC economies, including improving Individual Action Plans (for meeting the goal of the Bogor Declaration) on an annual basis, eliminating trade barriers and market distortions in the energy sector, and removing administrative and regulatory impediments to trade and investment in services. Progress in APEC's economic and technical cooperation agenda covering regional transport links, telecommunications, and human resources development will benefit Australian business.
105. The Government is committed to meeting the objective of free and open trade and investment by 2010 as set out in the Bogor Declaration. Australia has already reduced tariffs and other barriers more than most APEC member economies. Like every other government, the Australian Government will take account of what other economies are doing in deciding future steps, but its position

The World Trade Organization (WTO)

The WTO is important to Australia because it is the major forum for global trade liberalisation and, through its rules and disciplines, provides a predictable and more transparent environment for business, and a means for resolving disputes.

Over the next fifteen years, the WTO will face several challenges. Prospective new members such as China and Russia and more assertive developing countries will change the WTO's internal dynamics. Regional and multilateral sectoral agreements could further fragment the global trading system. The credibility of the new WTO dispute settlement procedures will be tested. There will also be continuing pressures for the WTO to take on "social" issues such as labour standards and to examine environmental and competition policies.

Globalising firms, including Australian businesses, will demand rules and continued reductions in barriers to trade and investment to keep up with new patterns of economic activity. This will create a more complex trade agenda for the WTO and its member states. Domestic regulatory regimes and rules affecting investment will move to the top of the international trade agenda.

To ensure Australia's interests are protected as the trade agenda expands, Australia must continue to be active in the WTO, where Australia's influence has been considerably greater than its ranking as a world trader. The Government will build on this standing, by advocating continued global liberalisation and open regionalism, leading the Cairns Group of agricultural fair traders and looking to build similar coalitions in other sectors.

Over the short term, the outcomes the Government will work towards include implementing successfully and unambiguously all Uruguay Round liberalisation commitments, including new negotiations on agriculture and services; further comprehensive multilateral liberalisation efforts, focusing especially on remaining tariff peaks in our region; and including all major trading countries as members of the WTO.

Over the medium to long term, the Government's objectives are launching and successfully concluding a further global round of multilateral trade negotiations; ensuring the system remains relevant to the changing needs of Australian business by extending the rules and disciplines to new areas of importance; and ensuring that liberalisation under the WTO at least matches the level achieved in regional trading arrangements in its depth and breadth of coverage. Another long-term strategic objective of the Government is to make world trade in agriculture free from distortion by subsidies, and to increase access for Australia's exports of agricultural products, given the continuing importance of the sector.

On social issues such as labour standards, the Government will oppose the WTO adopting positions that create divisions on the basis of divergent social or cultural values, and that are of doubtful or negative trade relevance.

Attempts to incorporate such rules would dilute the WTO's core business, and weaken its authority and credibility in the eyes of significant members.

is a positive one, based on the assessment that liberalisation brings overall benefits to the economy. A priority for the Government will be to ensure that other APEC economies not only keep to the goal of free and open trade and investment by 2010/2020, but that they also deliver substantial trade and investment liberalisation and facilitation along the way.

106. Australia's involvement in regional bodies extends beyond APEC. Improving Australia's connections with the ASEAN Free Trade Area (AFTA) is a priority for the Government. Australian business will benefit from the measures already agreed or under consideration to facilitate trade between Australia and New Zealand on the one hand and the ASEAN member states on the other. The Government will seek to ensure that Australian business also benefits from the newly formed Indian Ocean Rim Association for Regional Cooperation.
107. Active participation in APEC and other regional institutions demonstrates Australia's recognition that its future is inextricably linked to the future of the Asia Pacific region. It reflects the Government's commitment to being closely involved—from the inside—in shaping the region's future. Over the next fifteen years, Australia's already extensive regional links, especially to the countries of East Asia, will grow even further. As they do, the Government will seek even closer links to regional groups and institutions. Australia's interest in participating in the Asia-Europe summit process (ASEM) should be seen in this light.
108. As a country closely integrated with East Asia in economic and security terms, Australia warrants inclusion in ASEM. This is already recognised by most Asian participants in ASEM, and the Government will continue to work at building further support for our inclusion in an expanded ASEM membership.

Global strategies

109. Important as the Asia Pacific is to Australian businesses, Australia's trading interests extend more broadly and so do the Government's trade policy and trade development activities. Ensuring that the international trading system provides certainty and does not

United Nations (UN)

The United Nations is a diverse and varied system and Australia needs to direct resources and support to those areas of the UN system which most advance Australia's national interests. Over the next fifteen years, the level of commitment to particular areas could vary significantly as Australia's interests evolve or its assessment of the value of particular activities changes. The UN's importance to Australia is in core areas of international security and disarmament, environment, human rights machinery, targeted development programs, and those technical agencies dealing with issues such as agriculture, refugees and international nuclear safeguards, all of which engage important Australian national interests. Reform of the UN over the next fifteen years will require a fundamental reassessment of the scope of its activities. A more focused approach will be needed if the system is to exert genuine authority. Likely pressure points will be the environment, security, peacekeeping, and the effective management of the organisation to meet growing demands with static or declining real resources. It should not be assumed that every institution currently operating must continue to operate.

Rationalisation to remove duplication of functions will be important and, in some cases, removal or replacement may be a better alternative to reform.

These are judgements that can only be made on a case-by-case basis. Where the Government makes the judgement that a particular institution serves important Australian interests, Australia's efforts will be directed at its reform as necessary. An enduring longer-term outcome is improved administrative efficiency and effectiveness—the United Nations must undergo the same fiscal discipline and adjustment to which many governments have already been subject.

Use of like-minded coalitions will be critical in these efforts. Australia's membership of the budget reform-oriented Geneva Group (the major contributors to the United Nations) is an important base. Australia may also need to re-examine the current group system within the UN from the point of view of Australia's electoral and other interests.

discriminate against Australian businesses is essential if business risks are to be reduced. The key mechanism is the World Trade Organization (WTO).

Multilateral strategies for advancing Australia's interests

110. National interests are pursued in different ways. On some issues the most effective means of advancing Australia's interests are through multilateral efforts. In other areas a multilateral approach may be the only means available to achieve Australia's objectives. The global treaty banning chemical weapons, for example, advances Australia's national security by reducing the prospect of these weapons being used against Australia, and removing from the Australian defence force the onerous requirement to be equipped to operate in an environment where chemical weapons are being used. Multilateral trade agreements serve national interests by enhancing the access to foreign markets for Australian products. Participating in the OECD gives Australia a seat at an influential table which deals with important economic policy issues, and is often the trend-setter on trade issues. International cooperation to combat pandemics benefits the health of Australians, just as cooperation on refugee issues reduces the pressures of migration and resettlement on countries such as Australia.

111. In short, Australia has vital economic and security interests in parts of the multilateral system. Where international organisations are dealing with issues which affect Australia's interests, Australia must be active in the defence of those interests.

112. At the same time Australia must be realistic about what the multilateral system can achieve. The twentieth century has been both the incubator and the graveyard of a long list of initiatives for international cooperation. In most cases their failure reflected an inability to recognise that international organisations can only accomplish what their member states are prepared to enable them to accomplish. All too often international initiatives have failed to match aspirations with capability.

Multilateral means will remain an effective way to advance Australia's interests. However, Australia must concentrate on issues where its national interests are closely engaged.

Development Cooperation

Australia's development cooperation policy and priorities have recently been the subject of a separate review, and the Government's response to that review will include a detailed statement of its development cooperation policies. Here we examine the broad linkages between Australia's development cooperation program and Australia's foreign and trade policy objectives.

Unlike the great majority of aid donors, Australia is in the same region as its main recipients. This gives Australia a different perspective on the role of development assistance.

The purpose of Australia's development cooperation program is to assist developing countries to reduce poverty and improve the standard of living of their people through sustainable economic and social development.

A high-quality development assistance program with this clear purpose directly contributes to Australia's own prosperity and security by promoting the stability of Australia's region, creating conditions which are conducive to trade and economic growth, demonstrating Australian expertise, using Australian goods and services, and protecting the global environment. In this way, Australia's development cooperation program not only gives effect to humanitarian objectives, it makes a major contribution to advancing Australia's foreign and trade policy interests.

Since development needs are so immense, and will remain so for the foreseeable future, the geographic focus of Australia's development assistance program should continue to be on the Asia Pacific region, not only because a

large number of the world's poor live there, but also because Australia's security and economic interests are most engaged there.

Over the next fifteen years, the relative contribution that official development assistance makes to economic growth in parts of Asia is likely to decrease as private capital flows increase. Some of the countries in East Asia will graduate from aid recipient status, but development cooperation will remain a significant element in Australia's relations with others, including the countries of Indochina, PNG and the Pacific Islands. This is particularly the case for countries which are at risk of being marginalised by the process of globalisation, and where development assistance will be important as a catalyst for creating the conditions for private investment and trade. This role includes promoting good governance: a system of laws, and the administrative structures which foster effective, efficient and transparent government that is responsive to the needs of its people. Australia's development cooperation program will also continue to respond to the humanitarian needs of refugees and displaced persons and emergencies caused by natural disasters.

The multilateral development banks, supported through Australia's development cooperation program, have a particular role to play through their contribution to promoting the macroeconomic and sectoral policies necessary to attract investment and encourage economic growth and trade. All these objectives correspond closely with Australia's national interests.

113. The international agenda is, moreover, too large for Australia to involve itself in everything. Australia must concentrate its involvement on those areas where its national interests are closely engaged. The test the Government will apply here, as in other areas of foreign and trade policy, is the extent to which its investment of effort and resources matches and advances Australian interests.
114. International environment negotiations are an example of the importance of ensuring that Australia's multilateral objectives are closely aligned to its national interests. In its pursuit of international action which contributes to sustainable development, Australia must be active in protecting its fundamental national interests. The difficulties this will entail should not be underestimated. In this area, Australia's position is not shared by many of those countries with which it frequently cooperates on multilateral issues. Australia will need to build new coalitions as well as working to build wider understanding and support for our perspectives. Australia will also have to be prepared for tough negotiations and the possibility that the Government may need to stand aside from an international agreement if it does not adequately protect Australia's national interests, and if others cannot be convinced that Australia's proposals are superior in terms of both the environment and the global economy.
115. On the relationship between trade liberalisation and environmental protection, the Government will work for an outcome which makes trade and environment policies mutually supporting, which prevents environmental objectives being used to support protectionism, and which allows Australia to resist the imposition of solutions to environmental problems which are contrary to Australia's national interests.

Advancing Australia's interests through issues-based coalitions

Building coalitions with countries that share Australia's interests on particular economic or security issues will increase in importance. Potential partners may not be traditional ones.

116. Coalition building—putting together a group of countries to pursue shared objectives on specific issues and thereby enabling Australia to achieve more than it could alone—will play an even more important role in achieving Australia's foreign and trade policy objectives over the next fifteen years. Coalition building is closely linked to bilateral relationships. It is frequently through bilateral relationships that coalition partners are identified and strategies developed. Much of the work of coalitions requires the familiarity, access and ease of communications afforded by sound bilateral relationships.
117. The coalition-building strategy has been and will continue to be particularly important for Australia in trade policy and on international security issues. In the Uruguay Round of multilateral trade negotiations, Australia participated in many coalitions on issues ranging from agriculture (the Cairns Group of agricultural fair traders was an Australian initiative) to services and intellectual property. As well, Australia was part of a group of small and medium-sized countries which sought to ensure that the United States, the European Union and Japan did not dominate the negotiations.
118. Many of our security objectives can be achieved only in cooperation with others. For example, Australia has worked and continues to work closely with other countries to limit the spread of weapons of mass destruction: Australia's catalytic role on the Comprehensive Test Ban Treaty and other international arms control agreements demonstrates the value of working in partnership with other countries to achieve specific outcomes.
119. Pursuing Australia's interests by building coalitions requires a broad view of potential partners. Successful coalition building increasingly involves working closely with countries that are not traditional partners but which share common interests on specific issues. The

Valdivia Group, an Australian initiative involving temperate southern hemisphere countries, came about through seeking to identify countries with shared interests on a number of environmental issues. It is a model for the future.

120. As globalisation expands the number of issues governed by international arrangements, coalition building will become more important to ensure Australian interests are protected. Examples of issues in which Australia has an important interest, but which are not adequately covered by existing international rules, include discussions in the WTO on trade and competition policy and trade and investment, and disciplines on regional trading arrangements. The Government will look for opportunities to deploy coalition-building strategies to enhance Australia's influence in international negotiations on these and other issues such as the environment and disarmament.

CHAPTER FOUR

BILATERAL RELATIONSHIPS: THE BASIC BUILDING BLOCK

Advancing national interests through bilateral means

121. A central feature of the Government's approach to foreign and trade policy is the importance it attaches to strengthening bilateral relationships. Bilateral relationships are not an alternative to regional and multilateral efforts. Indeed, bilateral, regional and multilateral efforts are mutually supportive. When Australia works closely with another country on a global initiative, such as the conclusion of the Chemical Weapons Convention, it strengthens the bilateral relationship with that country. Similarly, cooperation within APEC helps to consolidate Australia's relations with individual APEC economies. In this way, multilateral and regional efforts feed back into, and broaden, bilateral relationships.

122. While foreign and trade policy strategies must deploy all three approaches—bilateral, regional and multilateral—effective bilateral relationships constitute the basic building block. The greater part of Australia's international efforts is bilateral. Within the framework of strengthening bilateral relationships, Australia develops and nurtures political and market access; exchanges information and intelligence; makes representations aimed at changing other countries' policies and practices which damage Australian interests; promotes commercial relations; negotiates bilateral treaties and agreements; and develops projects of practical cooperation in a wide range of fields.

123. In handling bilateral relationships, the Government will adopt an integrated approach taking into account the totality of Australian interests. In some instances these interests will be confined mainly to trade and investment; in the more substantial bilateral relationships, the Government will implement comprehensive strategies which integrate Australia's security, economic and political interests with efforts to forge a wider network of contacts in such areas as education, tourism and cultural exchanges. A comprehensive

Effective bilateral relationships are the building block for Australia's foreign and trade policies. They contribute to and complement regional and multilateral efforts.

approach to bilateral relationships also involves working closely with the Australian business community to expand market access and other opportunities for trade and investment. It means facilitating institutional links in fields such as the arts, sport, and education. In this way, each strand of the relationship not only has value in its own right, but also contributes to building a broader base from which to develop and advance mutual interests.

124. Working through bilateral relationships also enables the Government to calibrate strategy to take into account national differences. This is particularly important in terms of regional issues. East Asia, for instance, is enormously diverse, and Australia's regional policies must take this into account. The same is true of Australia's interests in ASEAN and within the South Pacific. Strengthening regional cooperation and building regional institutions means working with individual members of the region, recognising their particular national interests and accommodating their distinctive national styles and outlooks.
125. The growing strength of regionalism means in turn that Australia's bilateral partners will increasingly view issues through a regional prism, and with an eye to regional solidarity. This has certainly been the pattern among member states of the European Union, and it is likely to become more of a feature of Australia's relations with the members of ASEAN.

Bilateral trade and investment strategies

Bilateral trade and investment strategies are tailored to specific markets. Globalisation will add new elements to these strategies.

126. The focus of the Government's bilateral trade and investment efforts is very much on tailored and customised strategies. Different markets need different levels of government support for Australian exporters and investors. Detailed bilateral market strategies, framed in close consultation with the private sector, are an important means of expanding bilateral trade and investment.
127. The Government pursues its bilateral strategies in a targeted and integrated way, closely coordinating market access and market development through the high-level bilateral Market Development Task Force. With the support of Australian firms, the Government

concentrates on particular sectors in a national or regional market. Annual priority objectives and activities are developed for selected markets to establish and strengthen Australia's commercial presence, and to increase exports. These are set out in the annual *Trade Outcomes and Objectives Statement*, which also outlines the Government's trade policy, and the domestic and international settings in which that policy operates.

128. New approaches in the way Australia pursues its bilateral trade and investment interests will be required in certain areas over the next fifteen years. Globalisation blurs the boundaries of national interests through transborder economic links, two-way investment and joint participation in the international production chain. This means, among other things, that nationals of one country will increasingly be stakeholders in another. This will create new opportunities for Australian firms to build strategic alliances to maximise their advantages in the global production chain. As economies become more integrated, new constituencies for reducing barriers to trade and investment and facilitating trade emerge and this can ease the path for governments committed to further trade liberalisation and facilitation.
129. Over the next fifteen years, the Government's bilateral strategies will emphasise domestic regulatory elements and services. Consequently, Australia's trade negotiators will require greater specialisation and expertise in areas such as barriers to services trade, intellectual property, investment impediments and anti-competitive behaviour by firms. These will all be critical to Australia's efforts to capture its share of the high value-added activity in the international chain of production. The focus of bilateral activity will thus shift over time from tariffs to these emerging issues and to other non-tariff barriers.
130. Multilateral and regional forums will continue to provide means for pursuing bilateral objectives. In the World Trade Organization, these include the WTO dispute settlement mechanism, and the procedures for admitting new members. The latter provide bilateral opportunities because prospective members, such as China and Russia, must negotiate their entry by agreeing to liberalisation requested by members. The success of the recent negotiations with

Taiwan is an example of the benefits Australia can gain from the accession of new members. APEC also provides a forum for pursuing bilateral market access and trade facilitation issues.

Trade development

The Government has a continuing role in trade development, including through ministerially led trade missions. Promoting an export culture and inward and outward investment will be important.

131. Trade development is about helping Australian businesses to identify and develop opportunities in overseas markets. It involves building relationships and knowledge in particular markets and providing information to Australian business on trade and investment opportunities. It includes practical measures such as the business missions led by the Prime Minister and the Minister for Trade, which provide invaluable access for Australian businesses to foreign decision-makers. Assisting firms to enter markets capitalises on opportunities arising from trade liberalisation, thereby contributing to Australia's growth. It is a role for government because no individual firm has the incentive to encourage Australian business into international markets, or to raise the international profile generally of Australian business capability.
132. Trade development has an important role to play in the growth of an export culture. Companies that export tend to be more competitive and more innovative than those that do not. Australia still has a long way to go towards developing its export culture. A relatively small proportion of firms currently participates in international markets. Only four per cent of Australian firms export directly, with more exporting through wholesalers. Moreover, many who participate do so on an opportunistic rather than a long-term basis. Export success over the long run requires a strong commitment to developing export markets, building relationships with overseas customers and accumulating knowledge about overseas markets.
133. Over the next fifteen years, as international movements of financial capital expand, the Government's trade development work will extend further into both outwards and inwards investment. With the growing importance of technology as a key source of growth, technology transfer will be an increasingly important rationale for

encouraging inwards investment and also a tool for gaining access to other markets through investment. Australia's regime to protect intellectual property will be increasingly important in attracting technology-related investment to Australia. The Government will work to ensure that Australia is internationally competitive in this area, as in others which affect investment decisions, such as the taxation regime and labour market conditions.

Australia's bilateral relationships

134. As a nation with global interests, Australia must deal with countries in many regions. Each relationship engages Australian interests in different ways. Each is significant, and the Government does not seek to ascribe a strict hierarchy of importance to them.
135. This is not to suggest that the interests Australia pursues with each country are equally important, or that the Government can devote equal resources to each of them. The countries which most substantially engage Australia's interests are those which are not only significant trading and investment partners, but which are also influential in their own right in shaping Australia's strategic environment. Foremost among these are the three major powers and largest economies of the Asia Pacific region—the United States, Japan and China—and Australia's largest neighbour—Indonesia. Significant Australian interests are also engaged in Australia's relationships with the Republic of Korea, the other ASEAN states, and—in the South Pacific—New Zealand and Papua New Guinea.

The Government does not ascribe a strict hierarchy of importance to Australia's bilateral relationships.

United States

136. As noted in Chapter Two, the United States will over the next fifteen years remain the world's largest economy, leading military power and primary source of technological innovation. The United States will thus continue to be an indispensable element in any configuration for peace, security and economic growth in the world

Australia's alliance with the United States is an asset both redefined and strengthened by the end of the Cold War. The success of key Australian security and economic objectives is greatly influenced by the economic strength and political influence of the United States.

over the next fifteen years. The success of Australian objectives in key areas such as regional security, APEC and trade liberalisation, as well as on disarmament, refugees and many other issues, is greatly influenced by the economic strength and political influence of the United States.

137. Australia's alliance relationship with the United States is an asset both redefined and strengthened by the end of the Cold War. It is a central component of Australia's defence and continues to provide Australia with beneficial access to technology, military equipment and intelligence. It would seriously complicate the planning of any potential adversary. The Australia-United States relationship complements and reinforces Australia's policy of close engagement with East Asia. Beyond its significance to the defence of Australia, the alliance strengthens United States strategic engagement in the region: an engagement which has underwritten the regional stability on which the East Asian economic miracle has been built. The United States is also the largest export market and largest source of investment funds for many East Asian countries, giving it a major role in underpinning future economic growth in the region. In short, the United States will remain an indispensable participant in the security and economic affairs of the Asia Pacific over the next fifteen years.
138. A key objective of the Government will be to strengthen further the relationship between Australia and the United States by expanding the already close links that exist at the bilateral, regional and multilateral levels. The Government will be looking, in particular, to broaden its dialogue with the United States on Asia Pacific issues, and to encourage it to accord sustained high-level policy attention to the region. Australian policy objectives will be directed at ensuring a continuing constructive United States engagement with the region, reflected in productive relations between the United States and its key regional partners, as well as in an active US role in regional institutions such as APEC and the ARF. The Government will also work towards expanding cultural and educational links in a way which reinforces a genuinely multi-dimensional relationship.

139. US trade policy will be an important factor in determining the effectiveness of its leadership in the Asia Pacific and globally. The United States will remain a critical force for regional and global trade liberalisation. At the same time, it is likely to continue to pursue reciprocity in trade arrangements, and future US Administrations can be expected to follow an aggressive approach to opening markets using all available mechanisms to induce its trading partners to adopt measures which suit the interests of US business.
140. Despite its large trade surplus with Australia, the United States can be expected to continue to advance its interests vigorously on issues which it regards as significant, such as protecting intellectual property. In sectors where the United States is undergoing structural change, such as agriculture, it will continue to look to externalise adjustments through measures such as export subsidies or imposing restrictions on the access to its market. The Government will continue to oppose all such measures. At the same time, the United States remains a key economic partner for Australia, particularly in relation to investment, and the Government will be working to ensure that the wider economic relationship further expands over the next fifteen years.

Japan

141. The depth and quality of Australia's relationship with Japan are vital to advancing the broad range of our security and economic objectives, including through a bilateral economic relationship which is by far Australia's most substantial and successful.
142. Australia's trade and investment relations with this, the largest and most sophisticated economy in Asia, will have a profound bearing on Australia's economic interests over the next fifteen years. Japan is Australia's largest export market by a considerable margin—the value of exports to Japan is more than double the value of those to the next largest market. There are strong prospects for expansion in the areas of energy and food. In addition, Japan's large and affluent market presents wider opportunities for Australia as it opens to imports and diversifies.

The depth and quality of Australia's relationship with Japan are vital to advancing the broad range of Australia's security and economic objectives. The Government is forging a partnership of the highest quality with Japan.

143. The Government has three broad economic objectives in relation to Japan: to improve the quality of access for Australian mineral, energy, agricultural, manufactured and services exports; to support the emerging process of deregulation and economic restructuring in Japan to ensure that it provides Australia with opportunities for further diversifying and expanding exports; and to compete successfully for Japanese investment as Japan moves production offshore.
144. But Australia's interests in Japan extend well beyond the bilateral and are likely to do so even more in the future. As its economy deregulates and becomes more internationalised, Japan will become increasingly integrated with the other economies of East Asia. It will have a pivotal role in deciding how regional institutions emerge and develop in East Asia and the quality of East Asia's linkages with the world's two other great power centres in North America and Western Europe.
145. Australia is forging a partnership of the highest quality with Japan. There is already a broad alignment of Australian and Japanese strategic, political and economic interests in the Asia Pacific region. Australia and Japan both support the long-term strategic engagement of the United States in the Western Pacific and recognise the fundamental contribution that it makes to regional stability. Australia and Japan also share a core interest in advancing APEC as the primary vehicle for economic cooperation in the Asia Pacific region. Japan supports Australia's closer association with East Asia and is a strong advocate of Australian participation in the Asia-Europe summit process. The relationship with Japan will have a decisive bearing on Australia's overall standing in East Asia and our degree of participation in regional affairs.
146. Given congruent foreign and trade policy interests, each country welcomes the other's playing a more active regional and international role. Australia will seek to strengthen further its close partnership with Japan on the wide range of regional and global issues where our interests converge. Australia supports Japan becoming a permanent member of the UN Security Council. Dialogue and cooperation on Asia Pacific issues will be strengthened

further, as will cooperation in third countries, particularly collaboration in development assistance activities.

147. Over the next fifteen years, Japan is likely to become a more important defence partner of Australia as it works, within the framework of a firm alliance with the United States, gradually to assume greater responsibility for its own security and to develop closer defence links within the region. The Government sees value in expanding strategic dialogue and defence cooperation with Japan. This is a logical extension of the close partnership between the two countries and of our shared perspectives on regional security.

Indonesia

148. Australia's relations with Indonesia will always be fundamentally important. This reflects Indonesia's strategic location astride Australia's northern approaches through which 60 per cent of Australia's exports pass and its size—Indonesia is by far the largest and most populous country in Australia's immediate vicinity. Its relative size and position guarantee it a long-term leadership role in South East Asia. Indonesia is also acquiring a broader influence in the East Asian region including by playing an active role in Asia Pacific institutions, in particular APEC and the ARF, and it has been growing in significance as a trading and investment partner.
149. Australia has benefited directly and indirectly from Indonesian policies and actions over the past three decades that have advanced regional cooperation and stability in South East Asia and the wider Asia Pacific region. Indonesia has also played a generally positive and constructive role in broader international economic and security issues. In recent years government-to-government relations have developed very favourably and a substantial relationship is now in place across a wide range of technical, economic, cultural, defence and educational fields. The challenge is to sustain and widen it. This will require careful management as Indonesia faces a leadership transition after more than two decades of growth and social change. In these circumstances, continuing economic liberalisation, political stability and continuity in foreign policy are not necessarily assured

Indonesia is growing in importance regionally and as a partner for Australia. Expanding and developing this partnership, including on economic and security issues, is a priority for the Government.

over the next fifteen years, although they are clearly in the interests not only of Indonesia but also Australia and the region.

150. Australia will seek to support and encourage Indonesia's continuing stability and economic growth and to maximise the shared benefits to be gained from this. To this end the Government will work towards engaging at all levels with Indonesia: not only in government and business, but also between the two societies more generally. A specific objective will be to encourage more substantial constituencies for each country in the other. Building a more multi-faceted economic relationship, strengthened by greater trade and investment flows, is a high priority of the Government. So too is implementing the agreement on the Australia-Indonesia Development Area (AIDA) with its focus on shared interest in developing the provinces of the eastern part of Indonesia. The rapid growth in the number of Indonesian students choosing to study in Australia also makes an important contribution to longer-term links between the two societies.
151. Australia and Indonesia share significant strategic interests and an expanding structure of consultation and cooperation on strategic issues. This is reflected in the historic bilateral Agreement on Maintaining Security, and in the substantial bilateral defence cooperation program. Australia will be working to consolidate and enhance its strategic dialogue with Indonesia.
152. Developments in East Timor will remain important in shaping Australian public attitudes towards Indonesia and Indonesia's standing internationally. Australia will continue to encourage the protection of human rights and an internationally acceptable solution to the problem of East Timor, and believes this would have a positive impact on Indonesia's international relationships. While the overall administration of the Province is primarily a matter for the Indonesian Government to determine, the Australian Government considers that an improved human rights situation and a greater role in the administration of the Province for indigenous East Timorese would contribute to an overall resolution of the issue.

China

153. For much of its long history, China has had the status of a major power. Its influence in Asia stretches back thousands of years. As China's economic stature grows so too will its impact on the security and politics of the region and the world. Its relationships with the United States and Japan will be particularly critical to the stability of the Asia Pacific.
154. China is likely to be among the three or four largest economies in the world in fifteen years, and to be integrated into the international economy through multilateral and regional mechanisms such as the WTO and APEC. Australia continues to support China's accession to the WTO on appropriate terms. Its economic growth and integration is to be welcomed. It could enhance the prosperity and stability of the region.
155. China will, however, also face challenges as globalisation, and the sheer complexity of governing the world's most populous nation, lead to pressure for change. Political stability will be an important factor in ensuring sustained economic growth and continued international integration. How China manages the Taiwan issue and the special status of Hong Kong will have potentially far-reaching effects for the region, both in economic and security terms.
156. China will remain one of Australia's key relationships. The Government's approach to China will be based on shared interests and mutual respect. These principles provide the basis for a realistic framework for the conduct of the relationship, and offer the best prospects to maximise shared economic interests, advance Australia's political and strategic interests, and manage differences in a sensible and practical way. The one-China policy will continue to be a fundamental element of the bilateral relationship. Australia has an important economic and trade relationship with Taiwan which will be pursued within the framework of the one-China policy.
157. Australia and China have important economic interests in common and the Government seeks an expanding economic partnership with a rapidly growing China. The Government welcomes Chinese

China's impact on the security and politics of the region and the world will grow as its economy grows. The relationship will remain a key one for Australia and will be based on mutual interest and mutual respect, including the one-China policy.

investment in Australia and regards increased two-way investment as an important means of strengthening the economic partnership. Australia will maintain its long-term track record as a secure and reliable supplier of the mineral and agricultural commodities which are crucial to China's continuing economic growth. The Government will also be working closely with the Australian private sector to diversify the economic relationship, particularly into services trade and investment which are starting to grow strongly in size and importance. Merchandise trade exports will also continue to grow as China's economy expands, and Australia's manufacturing and technological capabilities become even better understood in China.

158. In pursuing a productive and broadly based relationship with China, the Government will be seeking to expand cooperation in those areas where the two countries have common interests. As two countries with different traditions, cultures and political systems, there will be some issues on which Australia and China do not share the same view. Any such differences are best addressed through dialogue and good communication between the two governments and in the context of a broad and mature relationship. The Government consequently places a high priority on expanding its bilateral dialogue with China in areas such as defence and security issues, as well as on human rights and consular cases.

159. Australia also has important interests in other countries of the Asia Pacific and other regions. The nature and the weight of these interests will vary over the next fifteen years, as will the resources the Government is able to commit to them. We examine here the key interests which Australia will be pursuing in these other bilateral relationships over the next fifteen years.²

The Americas

160. In the Americas, the close historical and cultural ties Australia has with Canada will continue to be the basis for an active trade and investment relationship, and close cooperation on international

² The countries are grouped by region and the regions are listed in alphabetical order.

issues. Mexico has the potential to become a more important economic partner, as its growth continues, although, as with Canada, Australia will need to work to overcome any long-term diversionary effects of the North American Free Trade Agreement.

161. Australia will expand its relationships with an economically stronger South America. Regional economic integration in South America will reinforce liberalisation and create opportunities, but could also raise problems for Australia through the trade diversionary impact of preferential trade agreements. The Government will work to reinforce the already strong growth in Australian investment in South America. It will also work to maximise the effectiveness of existing and possible future coalitions with the countries of South America on issues where national interests are shared, such as the environment and liberalising agricultural trade.

Australia will expand its relationships with an economically stronger South America.

East Asia

Republic of Korea

162. The Republic of Korea (South Korea) is already Australia's second-largest export market, third-largest trading partner and a close regional friend. The bilateral relationship, already extensive, should grow even further and the scope of bilateral dialogue and cooperation should expand. The Republic of Korea is likely to become more influential in the economic and security affairs of the region and internationally. Over fifteen years, it is likely to cement its place among the world's ten largest economies. Australia has a strong interest in the continuing growth of the Korean economy and strongly supports the Korean Government's domestic reform and trade liberalisation initiatives.
163. The Government will be working to build a fully mature and genuinely rounded relationship with the Republic of Korea, reflecting its standing as among Australia's most important regional relationships. This will include working closely where interests converge in regional and international institutions such as APEC, the WTO, the ARF, the UN and the OECD, and in intra-regional processes such as the Asia-Europe summit—the RoK is a strong

The RoK is likely to become more influential in the economic and security affairs of the region and internationally.

advocate of Australia's participation. It will involve building on our long-standing cooperation on security matters, including relating to the Korean Peninsula, and enhancing the bilateral strategic dialogue initiated by the Government. The Government also will work to expand cooperation in third countries and people-to-people links.

Australia's relations with ASEAN and its member states are central to Australia's engagement with the region.

164. Australia's relations with the Association of South East Asian Nations (ASEAN) as a grouping, and with its member states (Brunei Darussalam, Burma, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam), are central to Australia's engagement with the region. ASEAN has contributed enormously to the growth and influence of South East Asia, and it is likely to continue to play a key role in the emerging regional order. The ASEAN states constitute a high-growth market of almost 500 million people with a combined GDP comparable with that of China.
165. The Government will work further to build its relationship with ASEAN, both through Australia's connections with the grouping, and through stronger bilateral ties with individual member states, including with Burma once it has instituted genuine political and human rights reforms. In this endeavour, the Government will take advantage of the existing broad base of education, trade, investment, political and defence links. The Government will give priority to developing links between AFTA and CER, as well as working closely with individual ASEAN countries, both as an ASEAN dialogue partner, and within broader regional forums such as APEC and the ARF.

Europe

A unified Europe will rival North America and East Asia as centres of economic activity.

166. Europe remains Australia's major source and destination for investment. Over the next fifteen years Australia will be dealing with an increasingly integrated Europe. A unified European economy (currently 30 per cent of world GDP) will rival North America and East Asia as centres of economic activity. Europe is also a significant player in some of the world's key economic forums, including the Group of Seven and the World Trade Organization. The security of the European region is crucial in global strategic terms—a judgement reflected in the continuing relevance of NATO.

167. As Europe expands its links to the Asia Pacific region, new opportunities will open up for Australia. Europe has growing direct links to the region but in some areas Australia can serve as a platform for European investment into East Asia. The Government will also be working to strengthen Australia's links at the economic, political, social and cultural levels with Europe, both through the major European organisations, particularly the European Union (EU), and bilaterally.
168. Australia's interests in Europe are best served when our bilateral relations with its major countries—especially the UK, France, Germany, Italy and Russia—are sound and comprehensive. The presence in Australia of major communities of European origin is an asset in building these strong bilateral ties. The Government will also continue its efforts to attract major European investment into Australia. Through expanded trade and investment, Australia will enhance its access to Europe's high technology capabilities and Europe's strengths in the development of industry and infrastructure.

Indian Ocean Region

169. India is assuming a growing strategic and economic importance in global and regional affairs. There is considerable scope to broaden the bilateral relationship and the Government will accordingly be working to expand Australia's trade, investment and political links with India. The New Horizons promotion of Australia in India in 1996 was a significant step in this direction, and it will be important to build on the high-level contact and other benefits flowing from it. The Government's Year of South Asia initiative is a valuable step in this direction. It is in Australia's interests that India persists with economic reform and its increasing focus on Asia Pacific issues.
170. The Indian Ocean region will assume greater importance to Australia as the process of regional economic cooperation and development gathers pace in this region. Australia's membership of the Indian Ocean Rim Association for Regional Cooperation will provide it with an opportunity to benefit from and influence this process. In particular, the Gulf states, South Africa and countries of South Asia will be important and growing markets for Australia over the next

India is assuming a growing strategic and economic importance in global and regional affairs.

fifteen years. Through its Year of South Asia program the Government is highlighting the opportunities available, including for Australian businesses.

Middle East and Africa

171. In the Middle East, Australia has significant commercial interests and substantial prospects of increasing trade and investment links. In addition, political and strategic developments in this region will continue to affect Australia's trade interests and to engage its political concerns. Over the next fifteen years Australia will build on its traditional commodity exports, while broadening the base of its trade into services (especially education and medicine) and manufactures. Australia's interests in Africa will remain focused on the South African market, which will also provide a base for trading into all the countries of the Southern African Development Community (SADC). The Government will actively explore opportunities for mining investment and equipment sales elsewhere.

South Pacific

172. The South Pacific is an area of significant strategic interest for Australia and Australia's relations with countries in the region are of abiding importance.
173. A shared background and experience and a multi-faceted relationship incline Australia naturally towards a unique partnership with New Zealand, which the Government will give priority to extending and intensifying. New Zealand is an ally and Australia's third-largest export market, the first in importance for exports of elaborately transformed manufactures (ETMs).
174. Over the next fifteen years the Government will continue to pursue the integration of the two economies through the Closer Economic Relations Agreement (CER), cooperate closely in the defence area and engage intensively on a wide-ranging agenda. The successful pursuit of many Australian foreign and trade policy objectives will be advanced by maintaining a mutually supportive relationship with a New Zealand which is economically strong, bilaterally and

Australia and New Zealand share a unique partnership.

internationally engaged, and capable of playing a credible role in regional security.

175. A united, stable and prosperous Papua New Guinea—Australia's closest neighbour—is a major Australian interest. PNG's location gives it a strategic importance to Australia. Pursuing a constructive and productive bilateral relationship will be a high priority for Australia. Over the next fifteen years Australia will continue to be a major supplier to and investor in PNG, although increasing competition may reduce Australia's overall market share of PNG's imports. There are about 10,000 Australians in PNG and their security is an important consideration.
176. Australia will support a process of sustainable economic development in PNG, aimed at enhanced self-reliance within the context of a functional and democratic state. This will require strong backing for PNG's continuing commitment to fiscal prudence, stable macroeconomic policies, structural adjustment, trade liberalisation and market reforms.
177. Australia's development cooperation program in PNG will undergo a fundamental change over the next fifteen years. It is designed to assist the process of securing PNG's economic self-reliance, but Australia also recognises that PNG's dependence on aid needs to be reduced in the interests of fostering a mature bilateral relationship. The shift from budget support to program aid will be completed by the year 2000. Defence cooperation will remain an important element in the relationship.
178. The Government will continue to place a high priority on encouraging and supporting the PNG Government in the pursuit of a peaceful resolution of the Bougainville conflict.
179. Australia's relations with the other states of the Pacific islands region will always be important. As part of the neighbourhood, these states will continue to have close historical, political, economic, aid, and community (including religious and sporting) ties with Australia. Australia's international standing, especially in East Asia and in North America and Europe, is influenced by perceptions of how well Australia fulfils a leadership role in the islands region.

A united, stable and prosperous PNG is a major Australian interest.

Australia's relationships with the countries of the South Pacific are of abiding importance.

180. Australia will continue to play a significant role in trade and investment in the South Pacific, with scope for increased involvement as the economies of the larger island countries develop. It will support regional trade liberalisation and facilitation.
181. The Government will work bilaterally and multilaterally through the South Pacific Forum and South Pacific Commission to support the efforts of the island countries to improve their economic management, to develop their natural resources sustainably and to address issues of good governance. Increased conflict and instability in this region would have negative consequences for Australian interests, including possible calls to intervene, and heightened calls for increased migration.

CHAPTER FIVE

A WHOLE-OF-NATION APPROACH: LINKING INTERNATIONAL AND DOMESTIC STRATEGIES

182. Over the next fifteen years, globalisation will reinforce the need for policy makers at all levels of government, no less than business people, to think in an international context. Integrating domestic and international policies will become even more important. This makes a whole-of-nation approach essential.
183. A whole-of-nation approach is one where policy decisions fully take into account the linkages between the domestic and international threads of policy. This does not mean more bureaucratic coordination and layers of “clearance”. Rather, it means that, at the outset, the Government will continue to bring to the policy-making process a clear understanding of the linkages across portfolios. It requires better communication among those working on related issues in different portfolios. It means ensuring that the compartmentalisation which is a feature of most policy-advising structures is flexible enough to identify linkages and coordinate effectively. It also means being alert to the way in which policy makers in other countries are approaching similar policy issues. On occasion, Australia may need to bring outside perspectives into its policy review processes to see better the broader international context in which Australian policies will be pursued.
184. The importance of an integrated approach to policy making applies not only to domestic and international policies, but also to the various strands of external policy, especially foreign, trade, defence, immigration and development cooperation policies. The importance of integrating foreign and trade policy is now well understood, as is the conceptual basis for an amalgamated Department of Foreign Affairs and Trade. It reflects the reality that foreign and security policy, trade policy and trade development are all closely connected with a focus on advancing Australia’s national interests. Similarly, marketing Australian education, tourism promotion, investment policy, immigration (including refugee policy), and science and technology cooperation are all important elements in Australia’s

In a globalised world, the importance of integrating domestic and international policies makes a whole-of-nation approach essential.

Trade Policy and Industry Policy

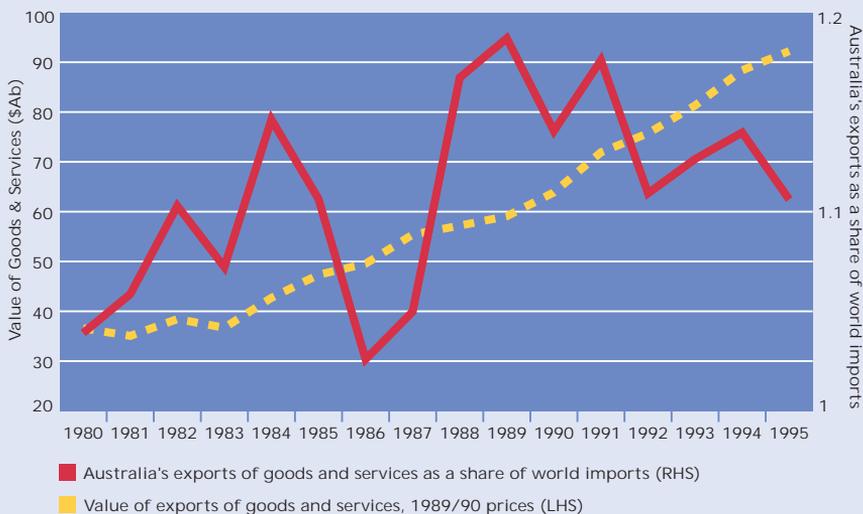
The links between trade policy and industry policy are close. While details of industry policy are beyond the terms of this paper, the Government will ensure that both are pursued in an integrated and mutually reinforcing way.

Industry policy is one element of the Government's strategy for increasing the competitiveness of Australian industries and firms by creating the most efficient environment in which to do business. Trade policy focuses on securing the best possible conditions and opportunities for competitive Australian firms to trade and invest offshore. Both trade and industry policy approaches will influence competitiveness, export capability and trade performance.

Australian exports of goods and services as a share of global imports fell from around 1.2 per cent in 1989 to 1.1 per cent in 1995, although incomplete data for 1996 show a significant improvement. Market share is not the only indicator of trade performance, and it is worth noting that, during this period of decline in market share, the value of Australia's exports of goods and services actually increased by 56 per cent in real terms. What the trend in market share underlines, however, is the crucial importance of improving Australia's competitiveness and economic flexibility to be able to diversify into areas that will grow strongly in the next fifteen years. These are the keys to Australia's future export performance.

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AUSTRALIA'S EXPORTS FLUCTUATE AS A SHARE OF WORLD IMPORTS BUT EXPORT INCOME CONTINUES TO RISE IN REAL TERMS



external relations. They all have implications for our foreign and trade policies, and require an integrated policy framework.

185. Policy makers understand that decisions in cases such as refugee applications or migration policy have an international impact. There is a recognition that Australia's external policies should be coordinated and consistent. Less familiar are the links between domestic policy and foreign and trade policy.
186. Taxation policy, for example, directly and indirectly affects exporters, Australia's attractiveness as an investment destination, Australians investing or working offshore, and competitiveness. As international economic integration and competition for investment intensify, taxation issues may become more relevant to the choices companies make. The way in which taxes add to the cost of producing and exporting, and the complexity and compliance costs of taxation are part of the competitiveness equation. In formulating its tax policies, the Government will continue to take account of the challenge of international tax competition.
187. Equally, international developments can have significant economic effects domestically. This can come about in several ways. International growth affects the markets for Australian products and influences economic growth at home. International developments influence exchange rate movements and interest rate policy.
188. Over the next fifteen years, the areas where international and domestic issues overlap and interact will expand. One example is competition policy, which fosters a competitive domestic environment and covers such matters as abuses of market position by monopolies. There is an increasing awareness by Australian business that anti-competitive practices or policies in overseas markets can undermine successes in reducing trade barriers, and there is growing interest internationally in dealing with the linkages between trade and competition policy.

Australia must ensure that its firms are not impeded from responding quickly and effectively to changes in demand, both overseas and domestically. The responses to these changes are made by firms but the Government has an important role in providing information and assessments. Moreover, the business sector needs to be assured of a competitive, efficient business environment and access to overseas markets. The role of the Government is crucial in facilitating these outcomes.

As well as promoting competitiveness and flexibility throughout the economy, the Government will also continue to focus on

reducing barriers for individual sectors. A particular focus will be on targeting those sectors—for example, agriculture, processed foods, motor vehicles and parts, and early-stage processing of raw materials—where tariff peaks and other barriers restrict the opportunities for exports from Australia. In these and other sectors, including sophisticated manufactures and high-value services such as education and tourism, where Australia has a comparative advantage, the Government is committed to continuing its close cooperation with industry to develop integrated export strategies.

The Government Reduces the Barriers for Small and Medium-sized Exporters

During the past ten years there has been a dramatic increase in the number of small and medium-sized enterprises that export goods and/or services. Often they focus on high technology or other elaborately transformed manufactures. Exports are the primary source of income for a significant proportion of these firms, and generate important revenue for the remainder.

The Government is committed to reducing the barriers these firms face, both overseas and in Australia. Already, the Government has

introduced a range of domestic reforms, all designed to make these firms more competitive. These include reducing the amount of “red tape” for small businesses, particularly in complying with taxation laws and regulations, and exempting small businesses from cumbersome unfair dismissal laws that act as a barrier to these firms creating more jobs. The Government will continue its program of domestic reform and its efforts to reduce barriers in other countries.

Strengthening the Australian economy

189. Central to Australia's capacity to exercise influence and to protect its economic and security interests, will be the strength and productivity of its economy. In a global economy, this will be the single most important determinant of Australia's future.
190. How the Australian government manages the economy will have a significant impact on the international competitiveness of Australian industries and firms. Economic strength will be assisted by policy measures which build Australia's intellectual capacity, improve skills, achieve flexibility in labour markets, encourage investment in research and development, develop appropriate infrastructure and promote savings. The Government is committed to these objectives.
191. Foreign and trade policy also contributes to the strength of the Australian economy by improving access for goods, services and investment, negotiating the rules and disciplines that provide certainty for traders and investors, helping Australian businesses to identify and develop opportunities in overseas markets, and enhancing the international stability on which a highly integrated world economy is dependent.

A priority for the Government is to enhance the international competitiveness of Australian business by creating the most efficient environment in which to do business.

Consultation and communication

192. Achieving Australia's foreign and trade policy goals over the next fifteen years will require communication and consultation on policies and priorities among the Commonwealth, State and Territory governments, the private sector, and non-government organisations. This will be particularly important since new and different demands on all partners will emerge during the next fifteen years.

Public Diplomacy and Cultural Relations

One important area where government, business and the community can work closer together is in so-called “public diplomacy”: a diplomacy which operates in that area of intersection between the soft realm of image and the hard edge of a country’s economic and political interests.

The images other countries have of Australia influence judgements about a multitude of issues including the quality of Australian goods and services, investment opportunities and risks, tourism decisions and Australia’s credibility as a partner. Conveying a contemporary and positive image of a changing Australia is important because there is always a time-lag between how a country is and how it is perceived. This is especially the case with negative images, which are quick to form but very slow to change.

Australia generally has a positive international image, but it is also often an indistinct and dated one. The dominating images are a collage of a country rich in agriculture and minerals and blessed with sun, surf and space. There is only a limited understanding of Australia’s technical capabilities, of its record of innovation and achievement in science and industry or of the extent of Australia’s cultural diversity.

Unless others know us better, and we others, our relationships will remain limited and the capacity to pursue Australia’s national interests diminished. For relationships to grow, including to expand economically, and to become more resilient, they need a broad base. Governments have a role to play in building

this base by breaking down stereotypes, encouraging mutual understanding, and helping to build networks. This is particularly important in Australia’s relationships with the countries of East Asia. Tourism, student exchanges, language studies, all help to reduce cultural distance and to encourage a greater two-way flow of people and ideas between Australia and its bilateral partners.

Expanding cultural exchanges is an important part of this process. Through its cultural relations program the Government helps to project a sense of contemporary Australia and its cultural achievements. The Government will continue its initiating and coordinating role in the staging of cultural promotions. It will also ensure the closer integration of trade and cultural promotions, and will be looking to a greater involvement by the private sector in such promotions. Projecting a positive image of contemporary Australia is very much a joint effort to which Federal and State Governments, educational and cultural institutions, industry bodies, businesses and non-government organisations must all contribute.

The Sydney 2000 Olympics will provide a unique opportunity to update international perceptions of Australia. By utilising media opportunities, targeted business and dignitary visits programs, international conferences, sports marketing linkages, and other related opportunities, the Government will be adopting a strategic approach to ensure that Australia’s hosting of the Olympics also advances Australia’s foreign and trade policy interests.

193. Globalisation is likely to expand the number of issues which will be influenced by international trends. As more issues become the subject of international discussion and cooperation, regular exchanges of information between governments, at all levels, and between government and the private sector, will be critical. The starting point of international negotiations must be a clear assessment of the implications for Australia of any proposed international agreement. The risks and opportunities inherent in international agreements will need to be identified as early as possible. A current example is the Framework Convention on Climate Change where a clear understanding of Australia's interests, and the implications for those interests of competing proposals is essential. Over the next fifteen years Australia can expect to deal with many similarly complex issues.
194. Governments need to prepare for an even greater interest in international negotiations by non-governmental organisations and by the private sector. On some issues there could be tensions between the overall national interest perspective of governments and the issue-specific and internationalist perspective of many non-government organisations. Many businesses will also have an increasingly international outlook, reflecting the requirements of a global economy.
195. The Government has already expanded the treaty-making process to ensure greater consultation with the community, including business and non-governmental organisations, on the costs and benefits of international agreements to which the Government proposes to accede. The increased range of trade, economic and social issues dealt with internationally will make such consultations even more important.
196. There will be issues, including international trade negotiations, global environment negotiations, and political and social issues such as human rights and disarmament, where views may differ widely on what constitutes Australia's best interests. However, it is the Government which is ultimately responsible for decisions about Australia's international commitments. These decisions must take into account the views of business and community groups, but in

As globalisation blurs the dividing line between domestic and international issues, consultation and communication with State and Territory governments, business and the Australian community will become even more important.

the end the Government must act on the basis of what it judges to be the overall national interest.

197. If Australia is to have sustainable foreign and trade policies, they must have the support of the Australian people. Foreign and trade policy needs to be explained in terms which are relevant to the lives of individual Australians. There needs to be a wider understanding in the community about how international developments affect Australia, and about the complexities of managing Australia's external relations in ways which advance Australia's security and economic well-being. Discussion of foreign and trade policy should not be left exclusively to the experts and the professionals. It affects the lives of all Australians and it deserves greater attention in schools, universities and within the community more generally.
198. Australia has the potential to become a major centre for the study of foreign and trade policy issues, especially those affecting the Asia Pacific. Already, several Australian institutions have acquired an international reputation for their research expertise in Asian studies, especially on China, Indonesia, Japan, the Asia Pacific strategic environment, and patterns of economic integration in the region. This expertise not only contributes to a deeper understanding of regional issues in Australia, it also helps to promote the credentials of Australian tertiary institutions, thereby attracting more students from abroad. There is scope to expand this expertise in a way which makes Australia a leading international centre for Asia Pacific studies.
199. Promoting Asian language studies is also an important element in Australia's engagement with Asia. A greater depth of language skills would not only assist business and official links but also contribute to broader understanding of Asia in Australia.
200. There is a particular obligation on the Government to inform, to explain and to listen on foreign and trade policy issues. The Government is committed to greater transparency and will make information available, as well as engage in more public discussion and explanation of foreign and trade policy issues. This White Paper is part of this process, but it also requires a continual dialogue between the Government and the community.

201. In this, the role of the Australian media is important. It is through the media that most Australians glean their view of the world and their understanding of foreign and trade policy issues. As the linkages between domestic policy and international policy grow, and as Australia broadens its regional and international engagement, it will be even more important for the media's coverage of foreign and trade policy to be comprehensive, accurate and informed.

CONCLUSION

202. With the globalisation of the economy and the economic rise of East Asia, the currents of international commerce and of power and influence are shifting. The next century offers great opportunities for Australia, especially in the Asia Pacific which is the region of highest priority for the Government. These opportunities will not, however, fall into Australia's lap. It will have to work to realise them. If Australia is to grasp these opportunities, it must have a strong economy at home and an active voice abroad. The two must be pursued in tandem, because in a global economy there can be no separating foreign and trade policy from domestic policy.
203. This active voice abroad must be a voice which promotes Australia's interests. These interests—the security and the jobs and standard of living of Australians—are the touchstone of the Government's foreign and trade policy. They are the driving principle of the strategies set out in this White Paper.
204. As a new millennium approaches, Australians should draw strength from their history. Australia has many natural endowments but it is also the case that, throughout its history, Australia has had to make its own luck. The Australian experience of nation building is one of growth, adaptation and social progress, and it is no less remarkable for being so understated in Australia's national consciousness.
205. In the period after the Second World War, Australia showed that it could adapt to a changing world by reshaping the priorities of its foreign policy and the focus of its trade. In the post-Cold War period Australia should retain confidence in its capacity to grow and adapt and to realise the benefits of the global economy and the opportunities created by the profound changes in its region.
206. The economic strength and increased influence of the major Asian nations is likely to be a defining feature of the twenty-first century. For Australia this underlines the central importance of forging close regional links. As a country of the Asia Pacific, it is only sensible that Australia accords this region its highest priority, and that it build on the foundations which complementary economies and geographic

proximity provide. Similarly, in the global economy of the next century, it is vital that Australia maintain a truly global perspective. Australia's future is inextricably linked to its capacity to engage with and compete in the global marketplace.

GLOSSARY

Australia-Indonesia Development Area (AIDA)

A bilateral arrangement between Indonesia and Australia agreed in principle in 1996 and launched in April 1997. The arrangement is aimed at facilitating increased economic cooperation between the two countries in Eastern Indonesia.

Australia-Indonesia Agreement on Maintaining Security (AMS)

A bilateral treaty signed in 1995 providing the framework for regular consultations at ministerial level between Australia and Indonesia on security issues and the pursuit of mutually beneficial cooperation in the security field.

Australia-New Zealand-United States Alliance (ANZUS)

The military and strategic alliance agreement between Australia, New Zealand and the United States signed in 1952.

Asia Pacific Economic Cooperation (APEC)

An economic cooperation forum established in 1989 and linking 18 economies in the Asia Pacific region (Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, Chinese Taipei, Thailand and the United States).

Asia Europe Meeting (ASEM)

A biennial economic summit held first in 1996 between the 15 member states of the European Union (see below) and 10 East Asian countries comprising seven of the member states of ASEAN (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) and China, Japan, and the Republic of Korea.

Association of South East Asian Nations (ASEAN)

A political and economic association of South East Asian countries (Brunei Darussalam, Burma, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam).

ASEAN Free Trade Area (AFTA)

A preferential trade agreement between the ASEAN countries signed in 1992 to facilitate trade and investment within the ASEAN region including by reducing barriers to trade between ASEAN members.

ASEAN Regional Forum (ARF)

A regional security forum established in 1994. Its members are Australia, Brunei Darussalam, Burma, Cambodia, Canada, China, the European Union (represented by the Presidency), India, Indonesia, Japan, Laos, Malaysia, New Zealand, Papua New Guinea, the Philippines, the Republic of Korea, Russia, Singapore, Thailand, the United States and Vietnam.

Bogor Declaration

Made in 1994 by the Leaders of APEC economies at Bogor, Indonesia. Notable for a commitment to free and open trade and investment by 2010 for industrialised economies and 2020 for developing economies. (The Declaration also called for stronger efforts in areas such as trade facilitation and economic and technical cooperation.)

Closer Economic Relations Agreement (CER)

A comprehensive agreement signed in 1983 to promote economic integration between Australia and New Zealand, including through preferential treatment.

Comprehensive Test Ban Treaty (CTBT)

An arms control agreement concluded in 1996 banning all nuclear explosive tests.

European Union (EU)

The organisation which brings together the European Economic Community, the European Coal and Steel Community and the European Atomic Energy Community. The member states are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

Five Power Defence Arrangements (FPDA)

A set of regional security agreements signed in 1971 committing the United Kingdom, Australia, New Zealand, Malaysia and Singapore to consult in the event of an attack on Malaysia or Singapore.

Framework Convention on Climate Change (FCCC)

The United Nations Framework Convention on Climate Change was opened for signature at the Earth Summit in Rio de Janeiro in 1992 and entered into force in 1994. Current negotiations are pursuing strengthened commitments from developed countries to reduce greenhouse gas emissions.

General Agreement on Tariffs and Trade (GATT)

An international trade agreement signed in 1948 with the purpose of regulating trade between the market economies of the world and the aim of encouraging trade liberalisation. The GATT grew into a framework of rules for world trade administered by the Contracting Parties with a small secretariat. In 1994 the GATT was incorporated into the World Trade Organization (WTO).

Gross Domestic Product (GDP)

The total value of goods produced and services provided in an economy, including for export. Income from investments overseas is excluded.

Individual Action Plans (IAPs)

Commitments made by APEC economies to reduce barriers to trade and investment by outlining the steps each member will take towards achieving the objective agreed in the Bogor Declaration. The first IAPs were submitted in 1996, and improved IAPs will be submitted on an annual basis.

Market Development Task Force (MDTF)

A high-level, inter-departmental task force, established in 1996 and chaired by the Secretary of the Department of Foreign Affairs and Trade, that focuses on and links more closely market access and promotional efforts across government. It is developing and driving a coordinated strategy directed at specific sectors and markets.

Tariff peaks

Tariffs that exceed three times the overall simple average most favoured nation (MFN) rate. (However, during the Uruguay Round, a tariff peak was defined as any tariff above 15 per cent.)

Trade Objectives and Outcomes Statement (TOOS)

An annual statement to the Australian Parliament of the Government's trade policy, strategy and performance, initiated in 1997.

United Nations (UN)

The United Nations was established in 1945. In 1997 the United Nations had 185 member states. Principal organs of the UN are the General Assembly and the Security Council. The "UN system" is a term used to describe the principal organs together with a wide range of specialised agencies and affiliated organisations. Examples of specialised agencies are the Food and Agriculture Organisation (FAO) and the United Nations Educational, Scientific and Cultural Organisation (UNESCO). An example of an affiliated organisation is the International Atomic Energy Agency (IAEA).

World Trade Organization (WTO)

The successor organisation to the GATT (see above). It administers the framework of global trading rules, including those on dispute settlement, which resulted from the Uruguay Round of global trade negotiations.

ANNEX A

White Paper Advisory Panel

Geoff Allen

Chairman, Allen Consulting Group Pty Ltd
Member, Trade Policy Advisory Council (since 1992)
Former Chairman, Trade Negotiations Advisory Group (Uruguay Round)
Director, Pasminco Limited

Kym Anderson

Professor of Economics and Director of the Centre for International Economic Studies,
University of Adelaide
Counsellor, Economic Research, GATT Secretariat 1990-1992

Robin Ashwin

Master, St Mark's College, Adelaide
Former Ambassador to the Soviet Union, Germany and Egypt

Harold Clough AO OBE

Chairman, Clough Limited
Past President of the Australian Chamber of Commerce and Industry (1995)

Rawdon Dalrymple AO

Chairman, ASEAN Focus Group
Visiting Professor, Department of Government at the University of Sydney
President, Australian Centre for American Studies
Former Ambassador to Japan, the United States, Indonesia and Israel

Malcolm Fraser AC CH

Former Prime Minister of Australia
Chairman, CARE Australia
Chairman, InterAction Council
Board Member, International Crisis Group

Meredith Hellicar

Managing Director, TNT Logistics Asia
Director, James Hardie Industries
Director, Goldfields Ltd
Former Executive Director, NSW Coal Association
Former Director, NSW Environment Protection Authority

Mike Hudson AC

Former Chief of Naval Staff
Federal President, Naval Association, Australia
Chairman, Antarctic Cooperative Research Centre

Bruce R. Kean AM

Director, AMP Society, Capral Aluminium Ltd, Pirelli Cables Australia Ltd, and
The Bank of Tokyo–Mitsubishi Australia Ltd
Chairman, Committee for the Economic Development of Australia
Former Managing Director of Boral Ltd and Chairman of the Business Council of
Australia's International Relations and Trade Committee

Graham Kraehe

Managing Director and Chief Executive Officer, Southcorp Holdings Limited
Former National President of the Metal Trades Industry Association
Member, Business Council of Australia
Former Chief Executive of Pacific BBA Ltd

Alister Maitland

International Advisor and former Executive Director, Australia and
New Zealand Banking Group Limited
Member, Trade Policy Advisory Council

Donald McGauchie

President, National Farmers' Federation
Board member, Australian Centre for International Agricultural Research
Board member, VIC Grains Pty Ltd
Former President of the Grains Council of Australia

Helen Nugent

Director of Strategy, Westpac Banking Corporation
Chairman, Major Organisation Fund of the Australia Council
Deputy Chairman, Australian Opera
Former Professor of Management and Director of the MBA Programme at the Australian
Graduate School of Management and Partner with McKinsey & Company

Robert O'Neill AO

Chichele Professor of the History of War, All Souls College, Oxford University
Former Director of the International Institute for Strategic Studies, London, and of the
Strategic and Defence Studies Centre, Canberra

John Rose

Director, Melbourne Business School at the University of Melbourne
Director, Woodside Petroleum Ltd
Former Deputy Chief Commissioner, City of Melbourne
Adviser to the Prime Minister 1977 to 1983

Cliff Walsh

Professor and Executive Director, South Australian Centre for Economic Studies
Member, Committee to Review Australia's Overseas Aid Program (Simons Report)
Principal Economic Adviser to the Prime Minister 1981 to 1983

Richard Woolcott AC

Chairman, Australia-Indonesia Institute
Founding Director, AustralAsia Centre of the Asia Society
Former Secretary of the Department of Foreign Affairs and Trade
Former Ambassador and Permanent Representative to the United Nations and
Australia's representative to the Security Council
Former Ambassador to Indonesia and the Philippines
Former Commissioner to Singapore and High Commissioner to Ghana

White Paper Secretariat**Department of Foreign Affairs and Trade**

Peter Varghese, Head of Secretariat
David Morgan
John Hannoush
Martin Quinn
Robyn Strange
Helen Kortlang

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