



ADVANCING THE NATIONAL INTEREST



Australia

AUSTRALIA'S FOREIGN AND TRADE POLICY WHITE PAPER

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Statistical note

Data for Australia's services trade by country are not yet available for calendar year 2002. Therefore, all data for total trade by country are expressed in figures for financial year 2001–02. For comparisons between economies, current market exchange rates have been used unless otherwise indicated. All dollar figures are for Australian dollars unless otherwise indicated.

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FOREWORD



*The Hon Alexander Downer MP
Minister for Foreign Affairs*



*The Hon Mark Vaile MP
Minister for Trade*

Advancing the National Interest is the Government's—and Australia's—second foreign and trade policy White Paper. It is a comprehensive assessment of Australia's place in the world and articulation of the Government's strategies to protect and promote the security and prosperity of Australia and our people.

Australians can be positive and confident about their future and our country's standing in the international system. As this document shows, Australia's international links are in good order, underpinned by our domestic strengths and informed by the values and identity of our nation. We are dealing forthrightly with security threats, especially from terrorism, the proliferation of weapons of mass destruction and people smuggling. And Australia has responded well to the challenges of globalisation, including through reform of our own economy and a sustained effort to open regional and global markets.

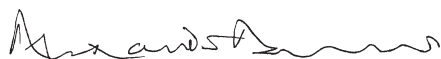
We should not be complacent. The decisions we take as a nation, particularly on security and economic reform, have a significant bearing on Australia's international standing. And in turn, the quality and strength of the political,

defence and economic ties we are able to maintain around the world will remain fundamental to our security and prosperity.

This White Paper continues the Government's commitment, expressed in the 1997 White Paper, *In the National Interest*, to keep the Australian Parliament and Australians informed of its approach to foreign and trade policy. Our aim is to give readers a deeper understanding of the essential contribution the Government's foreign and trade policy makes to advancing Australia's national interests. The Government recognises the importance of community understanding of Australia's foreign and trade policy.

We would like to record our thanks to members of the Foreign Affairs Council and the Trade Policy Advisory Council for their thoughtful comments and advice during the drafting of the White Paper. We would also like to thank those State Governments, academic, business and community organisations and members of the public who made submissions on the White Paper.

Australia's international environment will continue to be a challenging one. As this White Paper explains, making the right choices for Australia's future requires clear-sighted understanding and resolute pursuit of Australia's national interest.



Alexander Downer
Minister for Foreign Affairs



Mark Vaile
Minister for Trade

OVERVIEW

The **purpose** of Australian foreign and trade policy is to advance the national interest—the security and prosperity of Australia and Australians.

The **task** of Australia’s foreign and trade policy is to advocate and advance those interests in a way which is both effective and in accord with the values of the Australian people.

AUSTRALIA’S VALUES

Our fundamental values and beliefs are clear. Australians value tolerance, perseverance and mateship. These values form our spirit as a nation. They are evident in our readiness to pull together in times of adversity; in our defence, for more than one hundred years, of the freedoms we value; and in our social cohesion and national unity. We value the individual worth of every man and woman in our society. This is the essence of our egalitarian society and our identity as Australia and Australians.

Australia is a liberal democracy with a proud commitment to the core values of political and economic freedom which underpin our society and our philosophy of liberalism. The political and economic values that have shaped our institutions and outlook guide our approach to international affairs.

We believe that economic freedom will empower individuals to lead their own lives by removing impediments and providing opportunities. Economic freedom is the freedom to pursue one’s own development, but it is also the freedom from basic wants of food, clothing and shelter.

We believe that economic freedoms must be complemented by political freedoms. Political freedom is the freedom of individuals to speak, to think, to believe and to associate—or not to associate—as they see fit.

It is also the freedom to appoint and dismiss a government freely and fairly through the ballot box.

We believe that these freedoms produce a more stable and prosperous Australia. And that they also produce a more stable and prosperous international community, which is both an important end in itself and benefits Australia's own stability and prosperity.

AUSTRALIA'S PLACE IN THE WORLD

Australia has successfully embraced these economic and political freedoms. In so doing we have strengthened our place in the world.

Australia's identity is strong. We have developed our own distinctive culture and sense of confidence.

We are an outward-looking country largely of migrant origin, and one of the few in the world to embrace a national policy of multiculturalism. It is a proud and almost unparalleled tradition.

We have responded well to the challenges and opportunities of globalisation. Australia's economy has grown strongly, building on fundamental and continuing economic reform over the past two decades. This growth has translated into jobs and greater economic freedom for families throughout Australia.

The quality of a country's governance is crucial in determining whether it gains or loses from globalisation. The soundness of Australia's policies, institutions and governance has seen us prosper in what has otherwise been a difficult international economic climate, which has included the East Asian financial crisis and global uncertainty following 11 September 2001.

Australia's interests are global in scope and not solely defined by geography. Australia is a Western country located in the Asia-Pacific region with close ties and affinities with North America and Europe and a history of active engagement throughout Asia.

Open, politically stable, confident and tolerant, Australia is strategically positioned for future prosperity.

However, it is essential that we continue to promote economic and political freedom abroad. Our security depends, in part, upon it. The lesson of the decade since the end of the Cold War is that there are still those who, for their own ends and ideologies, seek to strike at the legitimacy of liberal democracy

and the spread of individual freedom. It would be irresponsible to ignore these growing security threats and defer them to a time when they are both much greater and more difficult to counter.

It is these threats and trends, be they ideological, systemic or political, which create the challenges and strategic imperatives that require a strategic response from Australia.

CHALLENGES AND RESPONSES

Australia's world is an uncertain one. The challenges we face are complex and evolving. They flow to a significant extent from opposition to democracy and open society as well as resentment towards, and perceived inequities from, the process of globalisation.

At the same time, traditional security concerns remain. The Asia-Pacific region is still home to eight of the world's ten largest armies and, after the Middle East, the world's three most volatile flashpoints—the Taiwan Strait, the Korean peninsula and Kashmir.

The terrorist attacks of 11 September 2001 in the United States and 12 October 2002 in Bali have been defining events. They have changed Australia's security environment in significant ways. They starkly demonstrated that threats to Australia's security can be global as well as regional.

Likewise, economic globalisation is having a profound impact in shaping Australia's world. By most measures, the economies of the world are now more deeply integrated than ever before. Globalisation brings opportunities, but it also tests countries' institutions and governance. Countries that are managing globalisation well, like Australia, are following market-oriented and outward-looking policies. Globalisation has raised living standards in Australia and has lifted hundreds of millions out of poverty in poorer countries.

But globalisation has increased countries' vulnerability to transnational threats. Terrorists and criminal organisations are able to take advantage of the ease of international travel and modern communications technology.

Threats to Australia's security come not just from our region, but also from more distant points on the globe. As a consequence, the strategies we pursue to advance our national interest must be bilateral, regional and, increasingly, global.

Australia will use the multilateral system to advance our national interests in key areas such as global and regional security, trade liberalisation, transnational threats, the promotion of human rights and the environment. We will, for example, continue to strive for an effective global response to climate change that does not unfairly compromise the competitiveness of Australian industry.

We will align ourselves creatively with other countries to maximise the leverage we bring to bear on shared interests and agendas.

Our strategies will build on Australia's strengths and achievements as a multi-ethnic society and on the quality of the relationships we maintain around the world, which include:

- our major trade and investment links with Asia, the United States, Western Europe, New Zealand and the Middle East
- our close defence alliance with the United States and important intelligence links with key partners
- our strong people-to-people links stretching throughout the Asia-Pacific, including the United States and Canada, and to Europe and the United Kingdom.

We aim to make the most of all these relationships regardless of geography. An advance in any one relationship need not be at the expense of others.

This White Paper, therefore, sets out an integrated mosaic of challenges and strategies for Australian foreign and trade policy in the years ahead. It is a confident statement designed for uncertain times.

The core challenges and strategies begin with our basic security and prosperity.

Maintaining security and prosperity

Confronting terrorism and global threats to our security

Unlike traditional forms of terrorism, the terrorist threat from Islamic extremism is not limited by geography and not amenable to negotiation. It has a particular edge for Australia in South-East Asia.

This modern form of terrorism is motivated by a perverse interpretation of the Muslim faith. In the words of Islamic foreign ministers, it runs counter to the teachings of the divine religions and is opposed to the tolerant message of Islam. These terrorists target innocent civilians. They seek to end our way of life

and establish Taliban-style states in moderate Islamic countries. Their techniques are non-conventional. The world is their battle front.

In this new climate of international terrorism, Australians have become targets because of the values we represent. In dealing with terrorism we will seek to understand and deal with both its causes and its symptoms.

However, there will be no question of Australia's commitment and resolve to protect Australian citizens and our way of life from those who use terror for their own ideological or perverse ends.

Australia's vigorous participation in the war against terrorism is vital to protect the long-term security of Australians.

The Government is acting decisively to strengthen Australia's domestic defences against terrorism. But regional and global cooperation is also crucial.

We have no choice but to fight terrorism with all available means and to join forces with all responsible countries prepared to make a stand against this scourge.

Our Asian neighbours, the United States and the United Kingdom are key partners in this campaign.

Our links with Asia are important as the Government works to strengthen counter-terrorist cooperation and capabilities in the region.

We will cooperate closely with countries that can produce the intelligence and bring to bear the resources, influence and capability that will be needed to combat terrorism.

We will work multilaterally with all concerned members of the global community to freeze the finances and restrict the movement of terrorist groups.

Our ultimate fear is the possibility of international terrorists acquiring weapons of mass destruction and, through them, the capacity to kill tens or hundreds of thousands of innocent people. But the proliferation of weapons of mass destruction and the missiles that can be used to carry them is a threat to the security of Australia even beyond this. Australia will remain at the forefront of efforts to address this threat.

In particular, we will work to prevent the spread of weapons of mass destruction to Australia's immediate region. The stark threat they pose has been made more

pressing through their proliferation by states that are both rogue and potentially unstable.

Iraq represents a major challenge to international security. Iraq already possesses chemical and biological weapons and seeks to develop nuclear weapons. The Iraqi regime has used chemical weapons in the past against its enemies and its own people.

Its flouting of international norms and persistent defiance of the United Nations Security Council call into question the authority of the United Nations and the effectiveness of international law. Saddam Hussein's virulent anti-Western stance and his support for terrorism raise the possibility of his making available weapons of mass destruction to al-Qaida or other terrorist groups. The Australian Government considers continuation of the status quo with regard to Iraq to be unacceptable.

North Korea's ambition to acquire nuclear weapons and develop and export advanced ballistic missile technology is also a matter of profound concern. Australia will work closely with the United States, Japan, the Republic of Korea and other partners to promote the denuclearisation of the Korean peninsula.

The threat of weapons of mass destruction is best handled through the multilateral framework. We will continue to be strong advocates of multilateral instruments designed to limit the proliferation of these weapons.

At the same time, collective responsibility is an increasingly significant test for the international community. The challenge for our age is to ensure that collective action based on collective responsibility is the primary means for ensuring international security. Collective action requires the Security Council to play its part and shoulder the burden of collective responsibility. If it does not, then either we deliver the next generation a legacy of proliferation or we rely on those willing to act in the common interest.

Just as the process of globalisation increases countries' vulnerability to terrorism, so too does it increase the risk posed by other transnational threats.

Transnational crime, including the smuggling of people, drugs and arms, and environmental challenges such as the increasing scarcity of water, undermine the security, prosperity and sovereignty of nations.

The management of these transboundary issues requires the cooperation of other states, without which effective counter-measures are difficult. The

Australian Government will push for the United Nations and other international bodies to develop practical solutions to transnational problems.

Responding to the challenges of transnational crime will also demand greater integration of diplomatic, law enforcement, aid, trade and defence policies to support Australia's national security.

Building on the success of its decisive action to protect Australia's borders, the Government will continue a vigorous campaign against the global crime of people smuggling.

Building prosperity through market liberalisation

Economic globalisation has brought great benefits to Australia. But we cannot be complacent. Australia must implement further economic reform, and the Government will work vigorously to deliver it.

An important task for the Government is to ensure that the Australian people understand the benefits of trade and economic reform in a globalised world.

Globalisation works best when markets are open.

Accordingly, the Government is pursuing a wider-ranging and more ambitious trade policy agenda than at any previous stage in Australia's history, taking in both the multilateral and bilateral channels.

Negotiations in the World Trade Organization (WTO) remain Australia's best hope for better access for Australian goods and services to global markets, and for rules that allow Australians to trade on equal terms with others.

The Doha Round of negotiations is crucial for the liberalisation of trade in agriculture and food, still the most protected area of global trade.

An outcome on agriculture that meets the needs of Australia and developing countries is crucial for the success of the round.

The Government will ensure that the Cairns Group of agricultural fair-trading nations is a dynamic force in the Doha Round and delivers significant reform of global agricultural trade.

The International Monetary Fund (IMF) has estimated that world incomes would increase by at least \$250 billion if agricultural protection were abolished, with both rich and poor countries benefiting from increased trade.

Significantly, the developed world provides \$100 billion a year in aid, yet spends over \$600 billion supporting its agricultural sector.

Open markets and economic integration are the best hope for many of the world's poorest people. Australia will work with vigour and unrelenting commitment to promote this objective.

While the emphasis of the Government will remain on multilateral trade liberalisation, the active pursuit of regional and, in particular, bilateral liberalisation will help set a high benchmark for the multilateral system.

Liberalisation through these avenues can compete with and stimulate multilateral liberalisation.

The free trade agreement that the Government is seeking with the United States could bring gains more quickly and more extensively than those available through the multilateral channels of the WTO.

Already, the Government has concluded negotiation of a Singapore–Australia Free Trade Agreement, which exceeds WTO commitments in key areas, including investment and competition policy. It has begun negotiation of a closer economic relations agreement with Thailand.

Where free trade agreements are more difficult, the Government will pursue wider trade and economic agreements that facilitate higher flows of trade and investment.

We are exploring such agreements with Japan, China and Korea.

The Government will consider negotiations with others in our region and beyond, if there is a likelihood of genuine liberalisation that will deliver benefits to Australians.

For the developing world, it is trade and investment, not aid, that will drive development: by providing access to a broader range of goods, services and technologies; by accelerating the flow of private capital and building foreign exchange reserves; and by acting as an employment multiplier upon which the local workforce can develop an entrepreneurial skill base.

While we should not over-estimate the extent to which international aid can be the principal vehicle for development, it can have a crucial impact in the promotion of good governance and the provision of humanitarian relief.

These fundamental strategic imperatives for security and prosperity can only be successful if we are able to consolidate our foremost regional relationships.

Consolidating and expanding our regional and bilateral relationships

Actively engaging with Asia

Close engagement with the countries of Asia is an abiding priority in Australian foreign and trade policy.

Such engagement will emphasise key strands, including important economic and trade links, valuable diplomatic and security relationships with many countries in Asia, and growing people-to-people links.

The Government is committed to working closely with all our Asian partners on the basis of mutual respect and shared interests.

Australia's success in winning the contract to supply liquefied natural gas to China's first LNG project showed that our strengths—our political stability, economic efficiency and advanced technologies—work well for us in Asia.

The Government will pay particular attention to securing the long-term vitality of our successful partnership with Japan and to building a strategic economic partnership with China.

Australia will play its part in helping to manage the major potential sources of conflict in Asia—the Taiwan Strait, the Korean peninsula and India–Pakistan tensions.

Close cooperation with ASEAN member states, in particular Indonesia, will be fundamental to the policy of active engagement. Strong ties with ASEAN members will be essential in dealing with shared security problems such as terrorism and people smuggling.

East Asia's abiding importance to Australia makes the development of regional architecture a significant issue for us.

The Government will continue to seek opportunities for Australia to participate in the broader dynamic of regional cooperation in East Asia in whatever practical ways become available, and will encourage the countries of East Asia to develop regionalism on an open and inclusive basis.

The Government will also vigorously pursue its relationship with India. India's weight in international affairs will continue to grow, as will Australia's economic relationship with India.

In seeking to enhance the depth and scope of our relationships within Asia, the Government will pursue active engagement through:

- political exchange and cooperation
- security and military cooperation
- cooperation on combating terrorism
- economic opening (such as through the Singapore Free Trade Agreement and participation in regional economic policy forums)
- educational cooperation
- development assistance
- cultural exchange
- people-to-people links through tourism and academic interaction.

There are other key regional imperatives which are critical to Australia's future.

Strengthening our alliance with the United States

Australia's links with the United States are fundamental for our security and prosperity.

The depth of security, economic and political ties that we have with the United States makes this a vital relationship. No other country can match the United States' global reach in international affairs. Further strengthening Australia's ability to influence and work with the United States is essential for advancing our national interests. Even when US actions do not suit our interests, our strong ties mean that we are better placed to put our views to Washington and that the United States will listen to them.

Australia has a vital interest in supporting long-term US strategic engagement in East Asia, because of its fundamental contribution to regional stability and prosperity.

The Government's pursuit of a free trade agreement with the United States is a powerful opportunity to put our economic relationship on a parallel footing with our political relationship, which is manifested so clearly in the ANZUS alliance.

While relations among the major powers are stable, Australia has an enormous stake and a helpful role to play in the management by the United States of its relationships within the region, including its complex relationship with China.

Helping our Pacific neighbours consolidate their future

Within the Pacific rim, Australia has a particular responsibility to help the countries of the South Pacific deal with their deep-seated problems, many of which have been exacerbated by poor governance in some states.

We are prepared to help those countries which are prepared to help themselves, and wherever feasible we want to encourage regional responses to shared problems. Our initiatives will focus on developing self-sufficiency founded on the rock of good governance.

We will work closely with New Zealand, an important partner for us in the region and well beyond. New Zealand has made valuable contributions in areas of great importance to us—most recently in East Timor, Bougainville, Solomon Islands and in responding to people smuggling. Our inter-governmental structures and people-to-people links are unique, and the ambitious program of economic integration between us will continue. But we remain two sovereign, separate countries, with all that implies.

Developing relations with an enlarged and increasingly cohesive European Union

Away from the Pacific rim, the Government will seek closer policy dialogue and cooperation with the expanding and deepening European Union. This will have critical influence on important Australian interests, such as global trade and environmental policy.

Our strong bilateral links with EU member states, particularly the United Kingdom, complement our direct dealings with the institutions of the European Union.

Russia's improved relations with the United States and increasing integration into the architecture of Europe are a historic and positive shift.

The emergence of a new Europe offers extraordinary opportunities both on a bilateral basis and for joint cooperation in tackling many of the global challenges that affect the quality of individual and community life.

Advancing our wider global interests

Australia has important links with all regions of the world.

Our long history of military involvement in the Middle East reflects that region's strategic significance. The intensive development of weapons of mass

destruction in the Middle East affects important Australian interests. And the Israeli–Palestinian conflict is felt keenly by concerned communities in Australia.

At the same time, the region’s economic significance to Australia is growing. The Middle East is the largest market for Australia’s booming automotive exports and remains a major destination for our commodity exports, particularly wheat. The Government will work to strengthen and diversify those economic links.

The Government will work actively with Canada and Latin American and African countries, on the basis of shared interests, to pursue trade, environmental and other global interests.

Projecting Australia and its values

Promoting good governance, human rights and development

Good governance—which includes the rule of law, respect for human rights and development of sustainable policies and institutions—is a basic condition for security and prosperity in all countries. The improvement of governance around the world can help create an environment that contributes to the security and prosperity of Australia. And the high quality of governance in Australia means that we have a distinctive contribution to make to other countries.

One challenge that good governance imposes on Australian foreign policy is the advancement of human dignity, justice and freedom.

We must do so in a practical way. We eschew the soap box and look for effective solutions and a genuine dialogue on human rights issues that make a difference.

The Government’s efforts to promote human rights will be practical and distinctive. We will, for example, continue to develop our bilateral human rights dialogues with key interlocutors, and we will continue to promote national institutions which support the rule of law.

The Government will also work to strengthen the effectiveness of UN human rights treaty body machinery.

Australia wants to see the human rights committees adhering to their mandates, tackling serious resource issues and addressing the most egregious international violations.

The Government will also work to establish a credible and effective means of enforcing international human rights.

The functioning of the permanent International Criminal Court is both a deterrent to and a means of punishing the most egregious human rights abusers. The Government takes pride in its role in the Court's development.

Without cementing the rule of law and the establishment of representative institutions there can be no genuine and lasting progress towards sustainable development.

Australia's aid program is an integral part of the Government's broader efforts to promote regional development and stability.

The issue of good governance—sound policies, mature institutions and accountable systems—will increasingly set apart those states that will succeed in a global, integrated economy and those that will fail. For that reason, good governance is now the largest sectoral focus of Australia's aid program, with Australia at the forefront of donors grappling with governance issues in the region.

The help we give other nations to improve their governance covers a wide range of areas, including legislative, administrative and judicial institutional capacity building. Australia also contributes to strengthening policy formulation and implementation. For example, Australia supports efforts to enhance the trade policy skills of developing countries, to enable them to reap the benefits of trade liberalisation. And we improve the capabilities of others in framing and implementing sustainable policies for the protection of the environment.

While aid is not the key to development, it can play a critical role in establishing the framework for development. It can also help deal with global challenges, such as the spread of communicable diseases like HIV/AIDS. Australia's six-year, \$200 million global HIV/AIDS prevention initiative, launched in 2000, will help provide prevention, treatment and care, particularly in South-East Asia.

Protecting Australians abroad

In an uncertain international environment, the welfare of Australians travelling abroad will remain of the highest priority for the Government.

This will involve working to promote the security of more than one million Australians overseas at any one time who are increasingly at risk from terrorism and other transnational threats.

Despite the extraordinary achievements of Australia's consular services in recent years in managing tragedies such as the Bali bombings and mass evacuations such as those in Cambodia and Indonesia, the Government will continue its efforts to improve the quality and timeliness of our consular services, including through recent initiatives to strengthen the promotion and dissemination of travel advice.

Projecting a confident Australia

The Government is committed to wide-ranging consultation within Australia to build broad community understanding of and support for our foreign and trade policies. The success of government–business cooperation in winning the contract to supply LNG to China showed how Australians can work together overseas.

The Government believes strongly in the value of promoting Australia's achievements internationally. Fostering respect for Australia and its accomplishments advances our national interests in a practical way. Few countries of Australia's size can point to a similar record of contemporary achievement.

CONCLUSION

The Government has a responsibility to promote the national interest and protect the interests of all Australians. It also has to be responsive to the values of the Australian people. These are the twin pillars—responsibility and responsiveness—that support Australian foreign policy.

The international environment is a challenging one. As a nation we have strong assets with which to advance our interests—a strongly performing economy, sound defence capabilities and a distinctive and positive approach to the world.

The Government will build on these assets to work with others who are similarly committed to dealing decisively with heightened threats to global security and expanding the prosperity and freedoms that come from open societies and open markets.



AUSTRALIA IN THE WORLD

CHAPTER ONE:

AUSTRALIA'S PLACE IN THE
INTERNATIONAL SYSTEM

CHAPTER TWO:

THE INTERNATIONAL
ENVIRONMENT:
CHALLENGES AND
RESPONSES



CHAPTER 1

AUSTRALIA'S PLACE IN THE INTERNATIONAL SYSTEM

Throughout its history as an independent country, Australia has been actively involved in international affairs both within and beyond the Asia-Pacific region to which it belongs. This is a natural consequence of the outward-looking nature of Australian society. We have strong links and close affinities with Europe and North America, a long history of active political, military and economic involvement in Asian affairs, and a vibrant economy which is deeply enmeshed in the international flow of trade and finance. Every year Australians make more than three million visits overseas and we welcome to our country annually around five million foreign visitors.

The security and prosperity of the Australian people depend vitally on the quality and strength of the political, defence and intelligence partnerships and the economic links that we are able to maintain around the world. Australia's values, its make-up as a society, the strength of our institutions and our diverse international links equip us well to succeed in a period of international uncertainty and economic globalisation.

The overall framework for Australian foreign and trade policy is global, reflecting the wide spread of our interests and relationships. Some of our interests are defined by geography, others are not. Some of our major relationships are shifting in importance over time, others stay relatively constant.

Australia's values

Australia is a liberal democracy with a proud commitment to political and economic freedom. That freedom is a foundation of our security and prosperity. We have a long tradition of working with other liberal democracies around the world to defend and promote it, thus helping to build a more prosperous and secure world for Australia. Securing the independence of East Timor and playing

an important role in the war against terrorism are only the most recent examples of Australia's defence of its values in the world.

Australia's political institutions and traditions are responsive, robust and decentralised. Debate is vigorous, the media are genuinely free and active, and power and influence are widely dispersed. Our system of government is a strength for us as a nation and provides a basis for successful foreign and trade policies.

The policies by which the Government advances the national interest are shaped by, among other things, the values of the community. This is particularly so of the commitment—by government and the community—to racial equality and religious tolerance. Our attachment to tolerance strengthens our standing in the world and thus our ability to advocate our interests. It is of particular importance at a time when small, unrepresentative, sectarian groups, like al-Qaida and Jemaah Islamiyah, pervert religious ideals for terrorist ends.

Similarly, we place great importance on fairness. The rule of law and equality of opportunity are crucial to fairness, and these are practices that we work to encourage in the rest of the world, as well as in Australia. They are at the root of our attempts to improve human rights and prosperity throughout the world.

Australia occupies a unique intersection of history, geography and culture

Australia is a Western country located in the Asia-Pacific region with close ties and affinities with North America and Europe and a history of active engagement throughout Asia.

Close engagement with the countries of Asia is an abiding priority in Australia's external policy. Asian countries account for seven of our ten largest export markets and are simultaneously important sources of investment, major security partners and a growing source of skilled migrants. Asia's weaknesses, as well as its strengths, matter to Australia. South-East Asia is our front line in the war against terrorism.

Our most significant alliance and security ties are with the United States, with which we share cultural similarities and values and major economic links. We have close economic and people-to-people links with the countries of Europe. We have shared formative parts of our history with the peoples of Europe, the

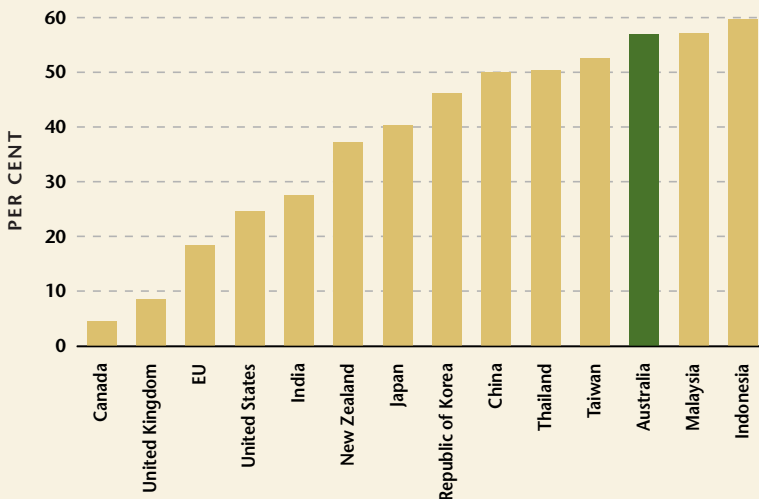
United States, New Zealand and Canada, experiences which remain assets in our international relations.

Maintaining a productive interplay between these two things—close engagement with Asia on the one hand, and the basic Western make-up of Australian society and its institutions and our wider international associations on the other—lies at the heart of our foreign policy. This challenge is hardly new for our country. For more than six decades since Australia assumed direct control of its own international relations, adroit management of this interplay has been a major theme in our external policy.

Managed well, this interplay is a strength, not a zero-sum game. Our links with Asia and other parts of the world are mutually reinforcing. An advance we make in any relationship need not be at the expense of others.

Our strong and diverse links outside Asia give us greater influence in Asia. Our alliance with the United States, which enhances our defence and intelligence capabilities, is of particular importance.

➤ Australia sends a greater proportion of its exports to Asia than almost any other major world economy



Merchandise exports (2001).

Source: Various including DFAT, ABS, CEIC, NZ MFAT, and IMF (for Canada and India data).

Similarly, our geographic location, our focus on understanding and dealing with the countries of Asia and our position as one of the most Asian-oriented economies of the world are assets in our relations with Europe and the United States. The United States and our European partners have their own well-developed links with Asian countries, but they value our unique perspective. And a significant number of companies from the northern hemisphere locate their Asian headquarters in Australia because of our proximity to Asia and the depth of our Asian skills as well as our investment climate.

Close engagement with Asia has proceeded, and will continue to proceed, on the basis that the values and traditions that define Australian society are taken as a given. We need to recognise the sometimes significant political, social and economic differences between us and individual countries of our region—just as individual countries of the region recognise the significant differences between themselves. They and we need to focus on the substantial shared security and economic interests that underpin our engagement.

Using functional affinities to build effective coalitions

Geography has never been the sole determinant of our international links. In a world where global economic integration is likely to continue, in which threats to our security can come from small, non-national groups operating far away, our interests will have a global spread. As these trends continue, Australia will increasingly find itself in situations where we consider foreign and trade policy less in geographic terms and more in terms of developing functional affinities with countries and groups of countries with which we share specific interests. We have been adept at building coalitions on that basis.

We share, for example, intimate intelligence links with a small group of countries that have different regional focuses in their international relations. Australia has continued the partnership that began in World War II with the United States, the United Kingdom, Canada and New Zealand in the collection and sharing of intelligence. It is a relationship based on strategic affinities and a common interest in obtaining reliable intelligence to defend individual national interests. It is based, too, on trust in each other and the possession of the necessary resources and capabilities. That common interest is likely to grow, and will probably embrace cooperation with more countries, as intelligence collection becomes of greater importance in the war against terrorism.

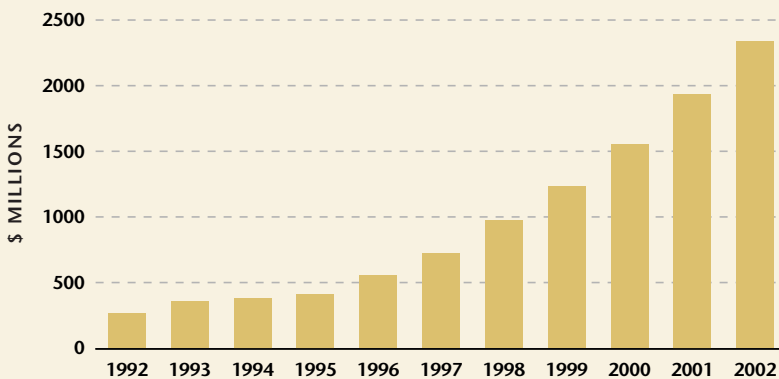
➤ The World Wine Trade Group

Australia’s wine industry employs 62 000 people directly and indirectly. The industry relies on access to overseas markets. Australia’s wine exports were worth a record \$2.3 billion in 2002. It is essential for the long-term growth of our wine industry that it have assured access to overseas markets.

Other major so-called new world wine producers—Argentina, Canada, Chile, New Zealand, South Africa and the United States—share Australia’s interest in ensuring the global wine trade is as free and fair as possible. The World Wine Trade Group provides a valuable forum for Australia to work with these countries to advance this shared interest. For example, the Group has concluded a mutual acceptance agreement on oenological (winemaking) practices. Once implemented, this agreement will ensure that different production standards in member countries cannot be used to limit Australian winemakers’ access to these markets, subject to legitimate health and safety concerns.

The World Wine Trade Group shows how the Government, working with industry, can use functional affinities with a disparate group of countries to advance Australian interests.

➤ The global taste for Australia’s wine exports



Australia also chairs the Cairns Group of fair-trading agricultural exporters. This grouping includes members from South-East Asia and Latin America as well as Canada, South Africa and New Zealand, countries with a shared interest in stronger international rules for fair global agricultural trade. It is a recognised force in global trade negotiations and the best hope for Australia's farmers in the new round of negotiations.

Bilateral relations are fundamental, including for multilateral cooperation

The actions of nation states and their governments still have the greatest bearing on the world's security and economic environment. So Australia depends on the strength of its bilateral relations around the world to advance its national interests. The greater part of the day-to-day work of Australia's foreign and trade policy is bilateral advocacy—working to influence governments and others to take decisions that suit Australia's as well as their own interests.

Bilateral advocacy and cooperation are fundamental for dealing with global and regional issues. The market access outcomes of the Uruguay Round of multilateral trade negotiations, for example, are essentially a series of bilateral agreements. In the war against terrorism, one of Australia's main objectives is to encourage other countries to put in place the laws and develop the capabilities needed to deter and deal with terrorist groups. Australia's bilateral, regional and multilateral policies are mutually supportive means to a common end—advancing the national interest. They are not alternatives to each other.

Judgments about priorities are crucial. Not all bilateral relations are equally important for Australia. Not all regional associations or multilateral activities will enhance the prosperity and security of Australians. In the United Nations, Australia, like all other members, operates selectively and focuses its effort on the issues most directly relevant to its interests. In a complex and fluid world, with an enormous and growing international agenda, we must be pragmatic and clear-sighted about which relationships, which issues and which multilateral activities are most likely to advance the national interest.

➤ **Bilateral relations: the sum of many parts**

Australia–Malaysia relations

Malaysia is our twelfth-largest trading partner. Two-way trade was \$8 billion in 2001–02, up 200 per cent in the past decade.

Trade Ministers' annual meetings, with private-sector involvement, resolve trade differences and develop strategies for greater trade. We work with Malaysia in the Cairns Group to liberalise global agricultural trade.

Over 100 000 Malaysians are alumni of our educational institutions. Many hold senior positions. Up to an estimated 25 000 Malaysians are currently studying at Australian institutions.

We cooperate in defence training, joint exercises and military dialogues. The Royal Australian Air Force and Army maintain a presence at Butterworth in Penang. We are members of the Five Power Defence Arrangement that also includes Singapore, the United Kingdom and New Zealand.

We have signed an agreement on cooperation to combat international terrorism with Malaysia. Police forces also cooperate against drug smuggling and international crime.

In 2001 the Australia Malaysia Foundation was launched—a private-sector initiative to promote cultural, educational and historical activities.

Australia–Germany relations

Germany is our eighth-largest trading partner. Two-way trade almost doubled over the past decade to reach \$10.2 billion in 2001–02.

Germany is our seventh-largest foreign investor. Some 330 companies have invested over \$15 billion in Australia in automotive, telecommunications, chemicals, construction services, financial services and other sectors.

In 2000–01 a record 160 000 Germans travelled to Australia. A Working Holiday Makers Agreement allows the growing numbers of young travellers in both directions to gain employment while holidaying.

Germany has been a prominent source of migrants, who have played a central role in Australia's development—the wine industry being a notable example. Around 750 000 Australians are of German heritage.

The Government and Australian universities established the Australia Centre in Berlin in 2001 to promote greater bilateral cooperation between academics and foster joint research efforts.

Australia and Germany benefit from each other's respective expertise on the Asia-Pacific and Europe. Senior officials consult annually on politico-military and economic issues.

Germany contributed personnel to the Australian-led INTERFET force in East Timor.

OUR DOMESTIC STRENGTHS UNDERPIN OUR INTERNATIONAL LINKS

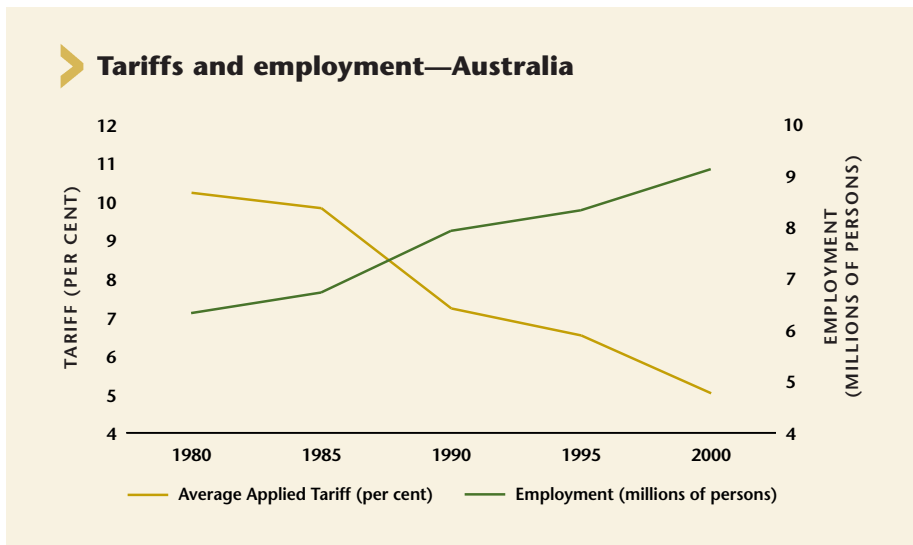
The strength and vitality of our political and economic institutions position us well to meet the challenges of an increasingly globalised and fluid international environment. Our national economic performance and other domestic strengths have a large bearing on our international standing and influence.

Our international economic links are strong and vibrant

Australia's prosperity has always depended on its international economic links. A large part of our wealth is based on international trade and investment. Our mining and agricultural industries were built on access to international markets. And many of the industries we have developed exist because of foreign investment and the international trade that flows from it.

In the past two decades, Australia's trade and investment links have become stronger as a result of extensive economic reform. Barriers to trade have been lowered. Broader reforms have enhanced productivity—deregulation, taxation reform, the strengthening of competition policies, a more flexible labour market, more efficient provision of infrastructure, a low and predictable rate of inflation and a low interest rate climate that encourages investment.

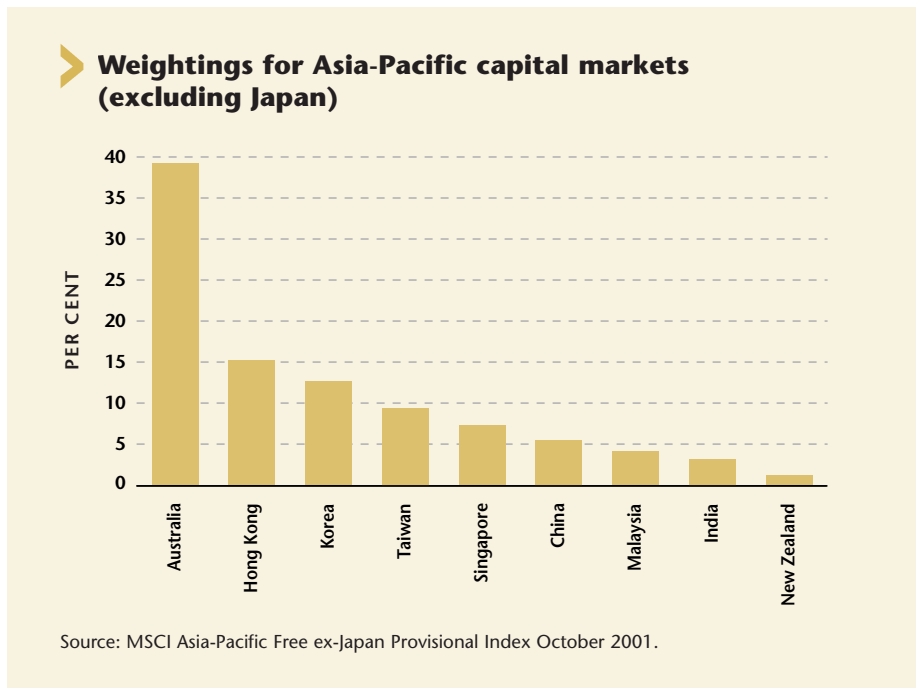
The strong economic performance resulting from these reforms has enhanced our international standing. At the same time, against the background of recent,



high-profile corporate failures in Australia and overseas, the Government is committed to ensuring that our institutional framework evolves to meet the new challenges of participation in the integrated global economy.

Australia has been one of the best-performing developed economies in the world. Over the past decade our average annual GDP growth was 4 per cent, one of the highest among developed economies. Productivity growth in Australia during the 1990s was the second-highest among developed economies after Finland.

Privatisation, corporate governance and tax reforms, and development of the superannuation industry have helped deepen Australia’s capital market and facilitated share ownership. These reforms have also encouraged greater international investment in Australia, further deepening our capital markets. Australia’s ranking in the Morgan Stanley Capital International (MSCI) index of world equity markets has climbed to ninth, up from thirteenth in less than two years. In 2001, we accounted for 39 per cent of the MSCI’s Asia-Pacific index (excluding Japan), well ahead of Hong Kong at 15 per cent and Korea at 13 per cent. Our ranking means that international investment funds are placing a greater proportion of their funds in our capital markets, further enhancing liquidity and reducing borrowing costs for business.



Our increasing integration into the global economy and the prosperity that flows from it depend vitally on stable and open rules and arrangements that protect and promote our flows of trade and finance. So we work to overcome the barriers that Australian exporters face, through the World Trade Organization and bilateral and regional arrangements. We cooperate with other governments to ensure the stability and soundness of global trade and financial systems and to build a more open and transparent global business environment.

Our security links are in good order

The security of Australia depends in large part on the quality and vitality of our key alliances and defence, intelligence and police partnerships. Our strong security capabilities reinforce our confidence as a nation in our dealings with countries in the region and beyond. Our flexible and technologically advanced armed forces make us a significant and recognised military power in Asia and the South Pacific. Our decisive and effective leadership of international action in East Timor and the full range of our contributions to the war against terrorism enjoyed international and regional support.

The Government will continue to place a major priority on strengthening Australia's alliance with the United States. The alliance is vital to our security and supports a stable security environment in our region. And it provides crucial access to capability-enhancing technology and intelligence. Over fifty years the alliance has proved its value and relevance to both sides. This was demonstrated clearly in US support for the Australian-led multinational force in East Timor. And it was shown again in Australia's decision to invoke the ANZUS Treaty for the first time and deploy forces to Afghanistan in the war against terrorism.

The war against terrorism has underlined the importance of Australia's other defence and law enforcement relationships, particularly with the countries of Asia. The very good cooperation between Australia and Indonesia in the joint investigation of the terrorist attacks in Bali showed the value of such links. The Government is strengthening these relationships. They facilitate cooperation on security issues, particularly terrorism, international crime and the spread of weapons of mass destruction, including by allowing us to help strengthen the capabilities of regional countries against such threats. And extensive training, bilateral dialogues, joint exercises and intelligence exchanges promote greater transparency on defence issues, thereby reducing the risk of misunderstanding and dispute.

➤ Australia: a welcoming nation

Australia has a long history and proud tradition of planned migration. Since World War II, Australia has welcomed more than six million migrants. On a per capita basis, Australia has taken more migrants than Canada, New Zealand or the United States in the post-World War II years.

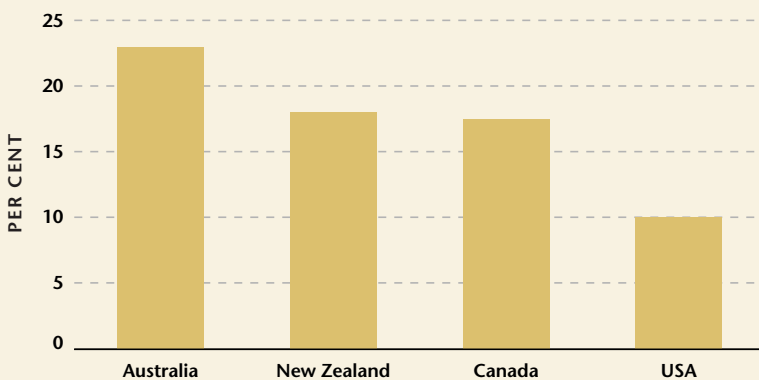
Nearly one in four of Australia’s current population of 19.6 million people was born overseas. This is much higher than other traditional immigration countries. Our overseas-born population originates from over 170 countries.

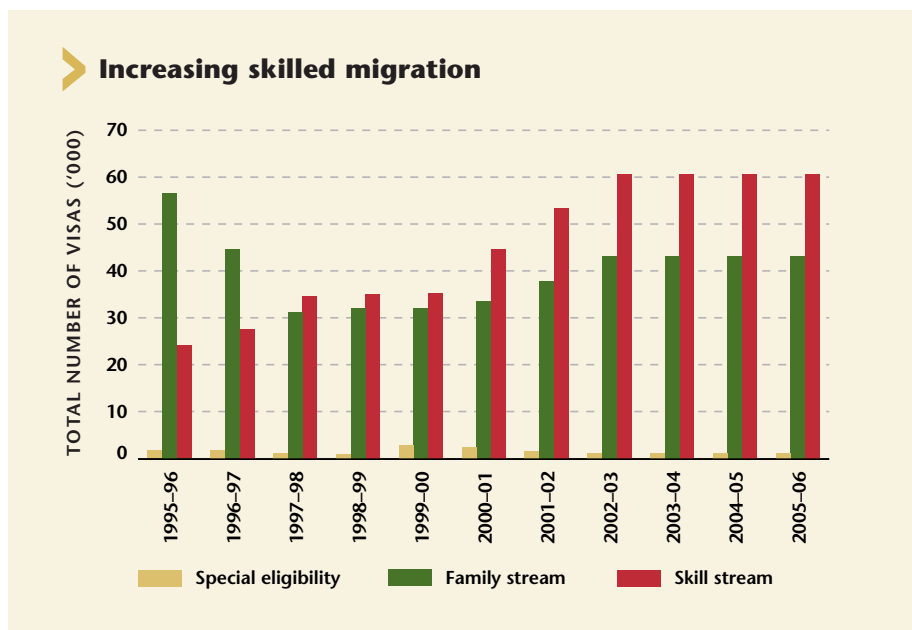
Between 100 000 and 110 000 migrants will arrive in Australia in 2002–03 and each of the following three years. These are the largest annual numbers in a decade, and the level of skills the migrants bring is by far the highest ever.

Australia is a world leader in the development of innovative processes for managing people movements. These include:

- the introduction of the Electronic Travel Authority
- electronic visas for many categories of students, working holiday makers and others
- the introduction of the APEC Business Travel Card. >>

➤ Proportion of overseas-born in population





People-to-people links contribute to our international standing

The interaction of Australians, in all capacities, with the rest of the world has created a network of people-to-people links. More and more people around the world are familiar with aspects of Australia’s national life. Knowledge of our achievements, characteristics and concerns can assist, sometimes powerfully, the Government’s advocacy of Australia’s national interests to other governments and decision-makers.

Our standing as an important centre of education for the rest of the world is crucial in building those links. In the past ten years, more than 800 000 foreign students, mostly from Asian countries, have studied in Australia. After the United States, more students from Asian countries study in Australia than anywhere else.

Our diverse community is a major element in our people-to-people links. According to the 2001 census, 23 per cent of Australians were born overseas—almost 5 per cent of all Australians were born in Asia. The second most frequently spoken language in Australian homes is the various dialects of Chinese. Australian society has embraced people from around 200 different ethnic groups and nationalities. As Australians, they and their children retain important links with their places of origin.

➤ **Australians abroad—major centres**



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AUSTRALIA'S PLACE IN THE INTERNATIONAL SYSTEM

Some 720 000 Australians live overseas, almost 4 per cent of our population. That expatriate community is an important representative of the Australian nation. For many people in other countries expatriates are their most immediate and direct contact with Australia. Some expatriate Australians have attained important positions as the heads of large multinational corporations and international organisations. Australian expatriates contribute strongly to the economies and societies of the countries where they live.

CHAPTER 2

THE INTERNATIONAL ENVIRONMENT: CHALLENGES AND RESPONSES

Australia pursues its core interests—security and prosperity—in a fluid and uncertain international environment. In the world in which Australia operates, nation states remain the key components. The alignments among them still define the basis of Australia’s strategic environment, and relations between the major powers are now more stable than they have been for many years.

But the security of Australia and many other countries is threatened by other international developments, notably terrorism, the proliferation of weapons of mass destruction, regional disorder and transnational crimes such as people smuggling. Overlaying and interacting with all of this is the pervasive impact of globalisation of the world economy, which offers the possibility of great benefits to most countries. But globalisation also carries its own pressures and disciplines and perversely increases vulnerability to terrorism and other transnational threats.

A MORE COMPLEX SECURITY ENVIRONMENT

September 11 and subsequent terrorist attacks have destroyed complacency about global security

The terrorist attacks in Bali confirmed that the international campaign against terrorism will need to be sustained and wide-ranging. Australia is committed to playing an active role in that campaign, because terrorism is a threat to our security and that of Australians overseas and a deliberate challenge to the values of the Western world. Australia has shown its commitment by its valued military role in Afghanistan and its efforts to help regional countries against terrorism.

Terrorist attacks will continue to be in the form of ‘asymmetric’ responses to the military, economic and political power of the United States and other Western

countries. They exploit the openness that comes from the expansion of trade, travel and communications in an increasingly integrated global economy. They are focusing increasingly on 'soft' targets, such as tourists overseas. As transactions across borders increase, governments will need to take appropriate security measures.

Further terrorist attacks are almost certain and the threat will diminish only with concerted and sustained domestic and international action and counter-terrorism measures. Al-Qaida retains much of its capability, funding and determination, despite setbacks in Afghanistan and elsewhere. In the past ten years, an estimated 12 000 people, not all of them al-Qaida members, received some terrorist training in Afghanistan.

Of greatest and most immediate concern to Australia is the growth of Islamic extremism and terrorism in South-East Asia. The Bali bombings showed that Islamic extremists in South-East Asia are now prepared to take up the anti-Western campaign of Middle Eastern terrorists and to follow their example of inflicting mass casualties. The bombings highlighted the links that have developed between entrenched regional extremist groups and global Islamic terrorism.

Mainstream Islam in South-East Asia is generally moderate and secular in outlook. But extremists, such as the Jemaah Islamiyah grouping, seek to overthrow states such as Indonesia and Malaysia. In several areas militant Islam has become entwined with separatist ambitions. Indonesia, the most populous Muslim state and one still undergoing difficult political and economic changes, is fertile ground for international extremist Islamic influence. Resolute action by South-East Asian governments and mainstream Islamic groups against extremism is crucial for halting the drift towards terrorism and violence. Australia will help where it can. The success of the joint Australian–Indonesian investigation into the Bali bombings showed how valuable such cooperation can be.

Proliferation and regions of disorder are an increasing threat

The possibility of irresponsible states and terrorists obtaining and using nuclear, chemical or biological weapons of mass destruction (WMD) is serious enough to be a real concern. International arms control cooperation, in which Australia will continue to play a prominent role, hampers the proliferation of WMD, but does not necessarily halt it. Some states continue to flout the international norms of

arms control, threatening international security and undermining the authority of the United Nations Security Council. Development of WMD is most intensive in the Middle East.

Some regions of disorder have become more volatile, more of a threat to global order and thus more relevant to Australia's security interests. The Middle East is the area where conflicts and crises are most likely to engage the rest of the world. Prospects for an early resolution of the Israeli–Palestinian conflict are poor. The United States has committed itself to deal with the threat posed by Iraq's WMD capabilities. The threat posed by Iraq to international security is great, and requires a concerted international response.

The Korean peninsula remains a potential flash-point. The major powers of the region have an interest in preventing escalation of tension by North Korea that could precipitate armed conflict. The United States and others, including Australia, have a particular interest in stopping North Korea's development and sale of WMD technology and missiles. North Korea will continue to seek advantage from this situation. Australia will work with other concerned nations to deal with this threat to regional and international security.

South and Central Asia, too, will remain of concern to the international community because of the presence there of Muslim extremists and the existence of WMD. Restraint by India and Pakistan and efforts to resolve their differences, notably over Kashmir, will be important, including for the prosecution of the war against terrorism.

Transnational threats require greater cooperation

Globalisation, with its vastly expanded flows of trade, finance and people, has created more opportunities for transnational crime, including the illegal movement of drugs, people and arms. The scale of these flows is immense and can overwhelm the capabilities of many nations. It is estimated, for example, that four million people are smuggled each year across borders, earning people smugglers between \$14 billion and \$20 billion. This flow puts enormous pressure on the policing and other resources of receiving and transit countries.

Modern, transnational criminal networks have become more flexible and are exploiting the advances of communications technology. Transnational crime will demand greater international cooperation in law enforcement, intelligence, border and financial controls, blurring the line between international and

domestic security. Building effective police, legal and other networks with other countries, particularly in Australia's region, will be crucial for dealing with organised crime in Australia. It will be important, too, to focus the work of international organisations on transnational problems with which national governments, acting alone, cannot always deal.

The Government has shown that resolute action can yield results. Australia's decisive action to protect its borders from illegal entrants, smuggled by international criminal networks, has seen the number of attempted entries fall dramatically. An important part of the Government's strategy has been to cooperate with other countries affected by the activities of these people-smuggling networks.

Other transnational issues threaten the security and sovereignty of nations, including in Australia's region. These include environmental threats, communicable diseases such as HIV/AIDS, the depletion of maritime resources, the security of energy sources and access to clean water. These issues are demanding more time and attention from governments.

➤ **Transnational challenges**

- The United Nations High Commissioner for Refugees estimates that there are 12 million refugees and an additional 25 million internally displaced people around the world.
- The UN Drug Control Program estimates that the annual illicit drug trade is worth between \$800 billion and \$1000 billion a year, a sum larger than the combined GDPs of Indonesia, Malaysia and Thailand.
- In December 2002, the Joint United Nations Programme on HIV/AIDS estimated that 7.2 million people in the Asia-Pacific region had AIDS or were HIV-positive.
- Research commissioned by the World Bank estimates that world fishing capacity exceeds sustainable levels by between 70 per cent and 100 per cent in many temperate and tropical fisheries worldwide.
- The World Water Council estimates that by 2025, 2.4 billion people in South and East Asia will be living in conditions of water stress, as strong economic growth leads to greater use of water by households and industry.

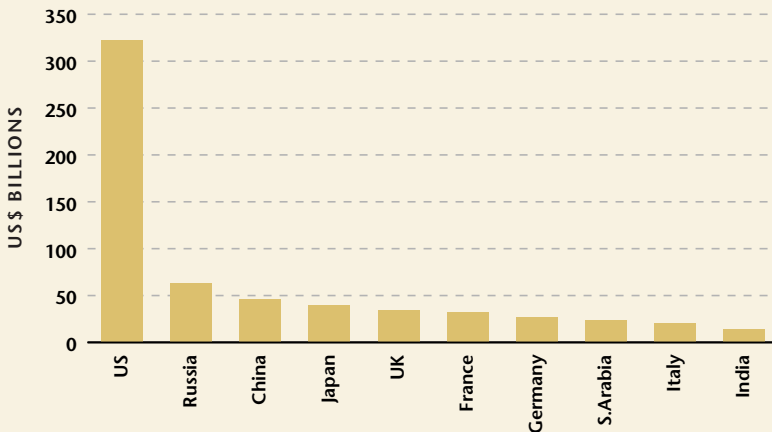
The United States is pre-eminent

The global pre-eminence of the United States and its military weight were underlined by its rapid and forceful military response to the terrorist attacks of September 11. US military spending is now greater than that of the next ten biggest defence spenders combined. The United States is unlikely to lose its technological edge for many years. Its wealth is immense—its share of global GDP increased from 25 per cent in 1991 to 33 per cent in 2001. Strengthening our alliance with the United States and building stronger economic links,

➤ The United States spends most on defence

US defence expenditures were more than five times larger than those of the next highest spender, Russia, and larger than Russia and the next nine countries combined. Total defence expenditures of the top 15 countries accounted for about 80 per cent of global defence spending in 2001. Defence spending has grown rapidly in East and South Asia over the past decade. Although it has declined among West European countries, France, the United Kingdom, Germany and Italy are among the top ten defence spenders.

➤ Top ten defence spenders



Source: International Institute for Strategic Studies 2002.

including by negotiating a free trade agreement, are fundamental for Australia's security and prosperity.

The United States will continue to place value on alliances, including that with Australia. Countries with capable forces that can contribute to the coalitions it leads, such as Australia, are important to it, but the technological superiority of its forces challenges the ability of others to contribute to military cooperation. Whether Australia takes military action in a particular circumstance will be determined by careful case-by-case consideration based on our broad national interests.

The United States' outrage and sense of vulnerability after the attacks of September 11 have shifted its strategic policy firmly towards international interventionism. The United States will pursue the anti-terrorist campaign anywhere in the world. It will see relations with other countries, including in Australia's region, in terms of the campaign. It is now more determined to counter the proliferation of weapons of mass destruction. It is more firmly resolved to protect its core national interests and will act to ensure that its influence and military capabilities are not undercut.

Great power relations are more stable

In the foreseeable future, no other country or group of countries will be able to challenge the United States' overall capacity to shape the global environment. Tensions might grow over US dominance. But so long as the United States continues to demonstrate successfully its strength, none of the other major powers is likely to risk serious confrontation with it. China, Russia, India, Europe and Japan are all focused more on their economic and strategic relationships with the United States than on contentious issues that remain between them.

The expansion and deepening of the European Union and the parallel expansion of NATO are momentous developments. The European Union and NATO are absorbing Eastern Europe and significant parts of the former Soviet Union, removing any major external threat to Europe's security.

The European Union is already of comparable economic weight to the United States and a rival to it in some areas, such as trade diplomacy. It will become a more coherent and influential economic union with the consolidation of the single currency, and Australia will seek to cooperate more closely with it. But, while gradually building a common foreign and security policy, the European

Union does not have strategic weight commensurate with its economic importance. Some individual EU members, however, such as the United Kingdom and France, will remain important international players with considerable ability to project force and deploy major diplomatic assets. They will continue to be important partners for Australia.

Russia's strategic cooperation with the United States is an important development that is redefining geopolitical realities. Russia's overall engagement with the West is likely to continue, particularly if, as is likely, it brings significant economic benefits. Russia could eventually become firmly integrated into Western, especially European, economic, political and social structures.

Power relationships in East Asia are evolving

Australia has a vital interest in supporting long-term US strategic engagement in Asia and in helping to prevent destabilising strategic competition among the major regional powers. The countries of Asia have no collective security framework as Europe does, nor is one in prospect. US strategic engagement and alliances underpin the security of the region and help manage rivalries between its powers.

Although much less powerful than Japan on many measures, China's growing economic, political and strategic weight is the single most important trend in the region. China recognises that a constructive relationship and economic engagement with the United States are vital to its efforts to build its economy and power. Australia has a major stake and a supportive role to play in the successful management by the United States and China of their complex relationship.

For China, reunification with Taiwan is an abiding strategic objective. Taiwan will continue to be a potential source of serious tension between the United States and China. The possibility of miscalculation leading to conflict is real, although small.

Japan is grappling with the challenges of far-reaching economic and political change. But it remains the world's second-largest national economy and source of technological innovation, and a large net creditor of the rest of the world. Japan is Australia's most important export market by far. Its military forces are capable and technologically advanced but constrained by constitutional and political limitations. Its alliance with the United States is strong and underpins

the security of the region. Japan is playing a more active role in its alliance with the United States and in the security of the region, particularly after September 11. It might move, albeit slowly, to loosen its constitutional and political limitations on a greater security role.

Japanese views are increasingly influenced by perceptions of China as a competitor, although economic interdependence between the two is becoming deeper. This is spurring diplomatic rivalry between China and Japan for influence in Asia, particularly in South-East Asia.

The immediate environment harbours risks

Without strong action from regional governments, terrorists will remain active in the countries of South-East Asia. And the Bali bombings have already affected South-East Asia politically and economically. Even before the extent of the terrorist problem became clear, South-East Asian countries had not recovered fully from the East Asian financial crisis, particularly in terms of lost confidence. Growth rates have not been strong enough to create significant employment opportunities.

South-East Asian countries could go through difficult periods of political adjustment over the next few years as leaders change and dominant political institutions lose strength. Governance, population and environmental problems could complicate this. ASEAN has worked well to strengthen regional cooperation and to give South-East Asia international influence. But no regional state is in a position now to give ASEAN strong leadership.

Indonesia is important to the stability of South-East Asia. It is undergoing a fundamental transformation from centralised autocracy to decentralised democracy, one that Australia strongly supports. This requires major political and institutional changes at a time when the economic base is weak and Islamic extremists are targeting the secular system of government. It is very much in Australia's and the wider region's interests that Indonesia remain a united and stable state and that it take firm action against terrorism.

In the South Pacific, small states face daunting political, economic and social problems and rising levels of discontent and crime. Poor governance underlies many of these problems. The vulnerability of weak states to transnational traffic of drugs, arms, people and money, including in support of terrorists, directly affects Australia's security interests.

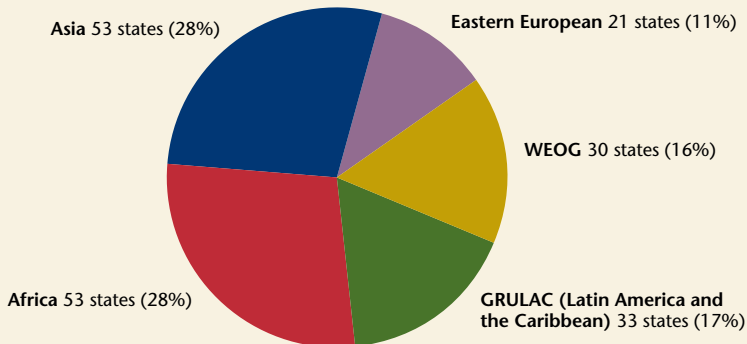
➤ **Reforming the United Nations’ electoral groups**

Elections of member states to most UN bodies, including the Security Council, are conducted through electoral groups established to give effect to the UN Charter principle of ‘equitable geographic distribution’. Australia is a member of the Western European and Other States Group (WEOG), one of five electoral groups set up in 1964 along rough geographical lines that reflected the geopolitics of the time. Since then, the membership of the United Nations has grown from 118 to 191, and the world has seen dramatic geopolitical realignments with which the electoral group system has not kept pace.

The chart below illustrates the discrepancies in the size of the electoral groups. Within WEOG, Australia is increasingly disadvantaged by the numerical dominance of the European Union, making election to key UN bodies difficult and dependent on resource-intensive campaigns. The electoral group system will be further distorted by EU expansion in 2004, when EU membership will extend into the existing Eastern European Group—itsself a legacy of the Cold War.

Reform of these anachronistic arrangements is essential to bring them into alignment with the United Nations of the 21st century and to allow for more genuinely equitable geographic representation in the organisation. Australia will continue to press for a wholesale reconfiguration of the electoral groups, under which we would expect to be grouped with other countries from the Asia-Pacific region.

➤ **UN electoral groups**



Note: Kiribati is the only member of the United Nations that is not a member of an electoral group.

The United Nations is important for our security, but needs reform

The United Nations is an important part of the machinery of global cooperation. But, with the end of the Cold War and the spread (albeit uneven) of the benefits of economic growth to many developing countries, the world has to a large extent outgrown the polarisation that preoccupied the United Nations for the first four decades after its establishment. The United Nations requires reform if it is to provide the sort of multilateral system that would better serve the interests of its members in practical cooperation to deal with contemporary challenges.

Australia, like others, seeks to strengthen the efficiency and effectiveness of the United Nations—supporting UN Secretary-General Kofi Annan’s efforts and promoting needed reform of UN treaty bodies. The Security Council continues to have an important role in the maintenance of international peace and security. Its membership should be expanded better to reflect contemporary international realities. Ultimately, the effectiveness of the United Nations will depend on the ability of its member states to set clear priorities for the organisation and to guide its work.

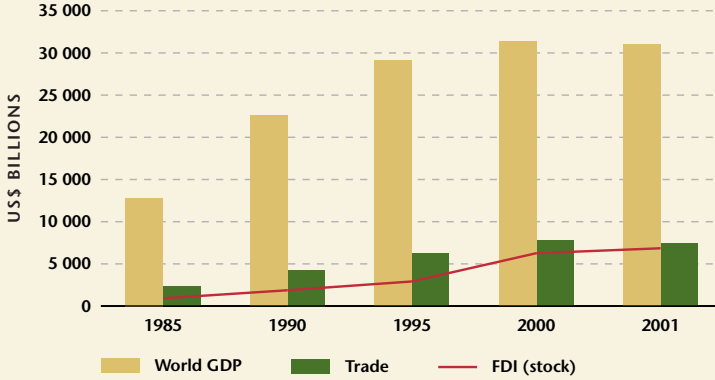
GLOBALISATION IS CHANGING AUSTRALIA’S ECONOMIC ENVIRONMENT

Australia, like most other countries, is more and more integrated into the global economy. Trade and foreign investment are a larger part of our economy, producing more highly paid jobs. The community gains from change, but there are some who require assistance to adjust. And the speed and scale of cross-border flows of information and finance mean that our institutions and policies must continue to be among the world’s best. The quality of a country’s governance is crucial in determining whether it will gain or lose from globalisation.

The global economy is more integrated

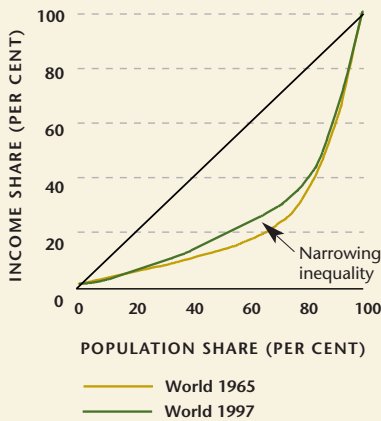
By most measures, the countries of the world are now more deeply integrated than ever before. In the past two decades, global production has more than doubled while trade flows have tripled and financial flows quadrupled. Foreign direct investment, in particular, has registered very rapid growth. So trade and financial flows have become a more important part of Australia’s and most countries’ economies.

World GDP, trade and FDI

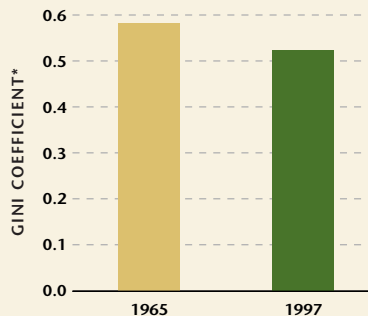


Global income inequality and poverty are being reduced

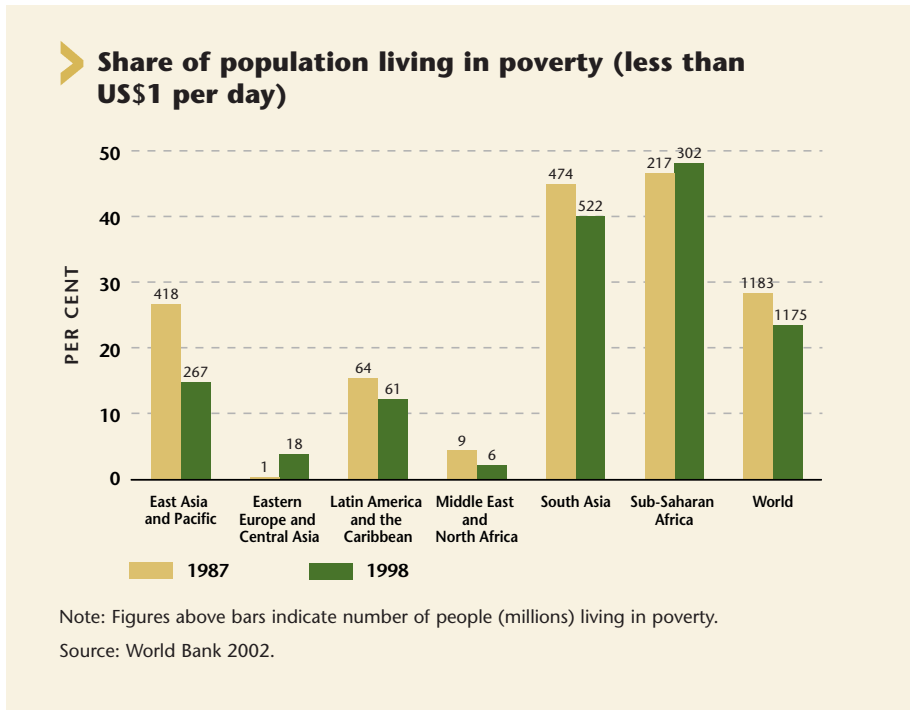
World Bank research indicates that global income inequality and the proportion and absolute number of people living in poverty have declined. Between 1965 and 1997 income inequality in the world fell by 10 per cent. Between 1987 and 1998 the proportion of the world’s developing country population living in poverty fell from 28 per cent to 23 per cent. The absolute number of people living in poverty in developing countries fell from 1183 million to 1175 million. >>



World inequality falls 10 per cent



* An economic measure of income inequality—see Glossary.



This is true of developing as well as developed countries. Economic reforms and outward-looking trade policies have helped many developing countries in Australia's region, including China, India and Indonesia, grow faster than developed countries. Many of the fastest-growing economies in the world will continue to be found in Asia, among Australia's most important markets, although not all Asian countries will easily repeat earlier decades of fast growth.

Outward-looking policies have helped to lift hundreds of millions of people out of poverty, particularly in Asia. For the first time in centuries, inequality between countries' standards of living has begun to shrink. Large numbers of people in developing countries are beginning slowly to catch up with developed country living standards.

Few governments, if any, will try to reverse the greater integration of their countries into the global economy. There are no success stories among countries that have not followed outward-looking policies. But some countries, particularly in Africa, face political and social problems that make it difficult to follow such policies.

More companies, too, are becoming globalised, including some of Australia's biggest. Many are moving towards the globally integrated production of standardised goods and services. They make investment and sourcing decisions on a global basis. Governments compete for such investments, including by providing predictable and sound economic environments. Companies can also be attracted to countries that are members of trade agreements and offer preferential access to markets beyond their borders.

Trade is an even larger share of our growing economy

Global trade has grown and diversified. Exports as a share of Australia's GDP have grown from 11 per cent in 1981–82 to 22 per cent in 2001–02. The increase for many developing countries has been much greater. There has also been a remarkable shift in the composition of their exports. In 1980 only 25 per cent of developing country exports were manufactures: in 1998 the figure was 80 per cent. This growth is reducing the cost of Australia's imports and improving our terms of trade. Our terms of trade are also improving as Australian exports become more diversified and sophisticated.

➤ Trade and investment: raising incomes and generating employment in Australia

With further integration into the global economy, the importance of trade and investment to Australia's prosperity continues to rise.

The jobs of one in five Australians depend on exports, rising to one in four in regional Australia. Regional Australia generates over half of Australia's exports, including agriculture, services and manufactures.

- Schefenacker Lighting Systems Australia in Taree produces lighting and electrical components for motor vehicles, with 320 employees and direct and indirect exports projected to be more than \$21 million in 2003, more than half of total production.
- Petaluma Wines based in the Piccadilly Valley of South Australia employs 70 people and has an annual turnover of \$14 million. Exports are valued at \$5 million and have been growing at an annual rate of 25 per cent. >>



- Charles Sturt University in Wagga Wagga has steadily increased its enrolment of foreign students, with 272 foreign students in 2002 generating \$3.9 million in export income.

Exporting firms pay better wages and offer better conditions of service than non-exporting firms. Australian Bureau of Statistics data indicate that workers in exporting firms earn an average of \$46 000 a year, compared with an average of \$28 600 for those in non-export businesses.

Exporters tend to invest more in technology, management techniques and the skills of their workers. Exposure to world markets provides firms with access to new technology and product innovation. These ideas are in turn diffused throughout the economy, helping to raise productivity rates in Australia and boost income levels.

Foreign investment creates employment opportunities. One in five jobs in manufacturing are in firms with majority foreign ownership and one in four jobs in the mining industry are in enterprises that are substantially foreign owned. In 2001–02 the Government helped attract 55 new investment projects, leading to total planned investment of \$1 billion, with the potential to create more than 1300 new jobs and \$650 million in exports.

It is important that the Australian community be aware of the benefits of increased inward investment and further trade liberalisation. To strengthen and sharpen the focus of the Government's promotion of the benefits of trade to the Australian community the Government launched the Exporting for the Future initiative in February 2001, coordinated by Austrade and the Department of Foreign Affairs and Trade. The Government created a specialist Trade Advocacy and Outreach Section within the Department of Foreign Affairs and Trade in November 2001.

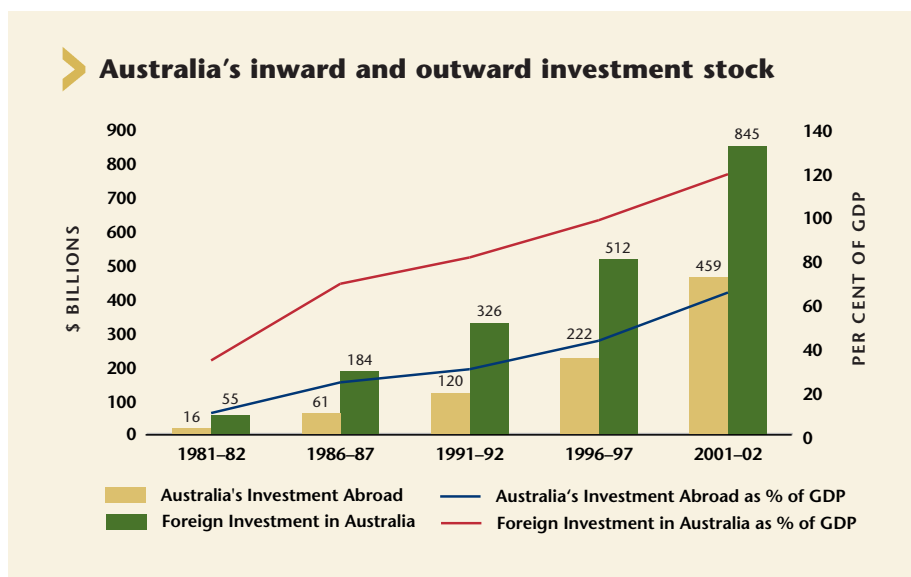
Governments' policies have been instrumental in the growth of trade. Developed countries have removed most barriers to merchandise trade, although not in agriculture and textiles. Many developing countries have also begun to liberalise their trade regimes and to develop more open and less-regulated economies. And as countries develop more competitive industries and trade more, their standards of living will continue to rise. In general, export-related jobs pay better than jobs not related to exports.

But governments can change their policies and erect new barriers to trade. So globally based trade rules and disciplines, administered through the World Trade Organization and other institutions, are important to lock in market opening. The Doha round of multilateral trade negotiations—in the launch of which Australia played a key role, reversing the failure of the international community at Seattle—is an important opportunity for Australia to improve trade rules and market access. And the Government will pursue bilateral and regional free trade agreements that offer additional scope for trade liberalisation.

Financial flows help drive growth

Developed countries removed capital controls in the 1970s and 1980s—Australia floated the dollar and removed exchange controls in 1983. Developing countries have also begun to remove some capital controls. As a result, financial flows have grown even faster than trade. Global foreign direct investment flows grew more than twenty-fold from 1981—although they dropped in 2001 after their peak in 2000.

With the enormous growth of capital markets, including in Australia, trade now accounts for only around 3 per cent of global currency turnover. Daily currency turnover in 2001 was US\$1.2 trillion—the equivalent to about 4 per cent of world GDP. Australia's integration into global capital markets is shown by the Australian dollar being the world's seventh-most traded currency, with the Australian foreign exchange market ranked eighth in the world by turnover. The growth of capital markets has reduced the costs of borrowing and allowed companies and governments to reduce risk—provided that national economic policies are sustainable and financial standards and prudential supervision are of a high quality.



The economies of East Asia benefited from greater openness to international finance as part of their integration into the global economy. But with the financial crisis of 1997, large inflows of short-term capital suddenly turned into destabilising capital outflows, with devastating effects on the real economy. Economies that had not developed public and private sector governance and institutions that were trusted by the markets in times of difficulty suffered the most. In Australia, despite the importance to our economy of Asian markets, the high quality of public and corporate governance helped maintain market confidence and limited the effects of the crisis. Indeed, the Australian economy continued to grow strongly during the crisis. And Australia was, with Japan, one of only two countries to contribute to each of the International Monetary Fund (IMF) rescue packages for Indonesia, Korea and Thailand.

Technology facilitates globalisation

Technological and organisational changes have reduced the costs of trade and financial flows. Transport has become cheaper and better integrated. The rapid development of information and communications technology (ICT) has vastly expanded the amount and nature of information that can be transmitted quickly and widely. Further changes in the years ahead will continue to drive global integration.

With the right environment, ICT will increase productivity and improve competitiveness, stimulating further trade and investment. ICT investment accounted for about one-third of the rapid productivity growth over the last five years of the 1990s in the United States and Australia. Australia's productivity growth in the 1990s was faster than that of the United States, and the second-fastest of all developed economies. The origin of the technology—in Australia's case, largely imported—is much less important than policies that facilitate its application. This has helped to transform the wider economy.

Countries that do not have favourable fiscal, financial sector, trade and investment and competition policies are less likely to capture the benefits of ICT. This is the real digital divide.

National governments set the policies

The nation state has not been superseded by economic integration. Countries or groups of them still provide the legal and political frameworks within which companies operate.

Nor should the extent of economic integration be exaggerated. Countries will continue to regulate flows of goods, services, people and finance for various reasons, including security, quarantine, culture and the maintenance of standards. Australia, for example, imposes stringent quarantine measures to protect the health of its human, animal and plant life. And in non-economic areas, including politics, culture and language, integration is much less a reality.

The experience of the East Asian financial crisis showed that integration into the global economy tests national institutions and governance. The benefits of economic integration are not automatic. They come from the effective policies and institutions put in place by governments. Globalisation amplifies the consequences of domestic governance.

Cooperation among national governments is important

National governments are the key to cooperation in the development of multilateral rules, standards and institutions. For outward-oriented countries like Australia, the protection provided by multilateral rules is crucial.

The architecture of multilateral institutions and rules is changing. It will be important for Australia to promote its interests during those changes. The World

Trade Organization is now having to deal with wider issues affected by or affecting trade. The efforts of the International Monetary Fund and the multilateral development banks are increasingly focused on new ways to strengthen their capacities to deal with international financial crises and poverty alleviation. Governments have agreed on a range of new instruments to deal with many environmental issues, although they have not agreed on a workable global approach to deal with climate change.

At the regional level, too, countries will be more active in cooperating to expand markets and improve competitiveness. The European Union has gone furthest, with a common currency and a common regulatory framework. Elsewhere, countries will look at free trade agreements and other economic and financial arrangements. In East Asia, where most of Australia's major markets are found, various proposals are being floated for regional economic integration. The outcome of these developments may have important implications for Australia.

Governments will cooperate more in the development of mutually acceptable standards for goods, services, finance and intellectual property. The globalisation of companies and industries means that there will be growing pressure for high-quality, world-wide standards in areas such as accountancy. But there is no evidence of a lowering of standards of environmental protection, health and safety or labour rights. The opposite seems to be the case. As countries participate more in the global economy and become more prosperous, standards in many areas become more stringent. The challenge will be to keep them transparent, fair and simple to administer.

Managing globalisation in Australia

Global economic integration is to a large extent the result of governments' policy choices. Australia's recent strong performance is, in no small measure, the product of sustained reform efforts aimed at ensuring the economy is well placed to benefit fully from the opportunities that globalisation offers. And the Government will continue to develop the human skills, the infrastructure and the economic settings that capture the greatest benefits from globalisation for the people of Australia. It will pursue global cooperation to reduce barriers to our trade, minimise the security risks of cross-border transactions and improve domestic and international governance.

The Government will continue to explain the benefits of globalisation to the community, parts of which can be sceptical. This can be difficult. The benefits are great, but they are often widely spread. The losses, while much smaller, are usually concentrated and visible. Some industries and groups do lose from globalisation, at least in the short term. The Government will continue to provide training and social security nets that help them adjust.



MAINTAINING SECURITY AND PROSPERITY

CHAPTER THREE:

FIGHTING TERRORISM AND
GLOBAL THREATS TO
OUR SECURITY

CHAPTER FOUR:

BUILDING PROSPERITY
THROUGH MARKET
LIBERALISATION



CHAPTER 3

FIGHTING TERRORISM AND GLOBAL THREATS TO OUR SECURITY

Australia is committed to the international campaign to eliminate the global threat of terrorism because terrorism threatens Australians at home and overseas. Terrorist groups such as al-Qaida and Jemaah Islamiyah attack our values and pervert the religion they purport to uphold. Islamic foreign ministers described acts like the September 11 terrorist attacks as counter to the teachings of the divine religions, and opposed to the tolerant message of Islam. Terrorists—and the states that sponsor them—seek to harm the security and prosperity of our closest allies, such as the United States, and our regional friends, such as Indonesia and the Philippines. In defence of our own interests and the interests of our allies and friends, Australia could not and will not stand aside from this campaign.

The threat of terrorism to Australians is global. But its impact on Australia is most acute in our immediate region—as demonstrated horrifically by the Bali attacks. The threat of terrorism to Australia and the international community will not end quickly or easily. To be effective the response will have to be sustained. Military responses, as shown in Afghanistan, are important. The campaign will also require non-military measures, including law enforcement, legislative, intelligence, customs and migration responses. Capacity-building assistance to regional nations will be important.

The Government is responding robustly to terrorism. It has introduced a wide range of strong domestic measures. It committed Australian forces to the war against terrorism in Afghanistan. It is strengthening counter-terrorism cooperation with key bilateral partners, particularly in Asia and the South Pacific. And Australia is contributing to international efforts to strengthen counter-terrorism measures, such as implementation of financial controls.

Australia is responding to the threat of terrorism at home

The security of Australians within their own country is a priority in the Government's counter-terrorism policy. The Government is building stronger military, police and intelligence counter-terrorism capabilities at a cost of \$1.3 billion over five years. It has introduced tighter financial, aviation and border control measures. It has built a nationwide response to terrorism, including an inter-governmental agreement on counter-terrorism cooperation that is working on, among other things, the coordination of the protection of critical infrastructure and communications.

International cooperation is vital in the fight against terrorism

No country can deal with the global threat of terrorism on its own. Effective international action against terrorism requires strong cooperation at bilateral, regional and multilateral levels. Australia's cooperation with other nations helps the Government safeguard the security of Australians.

The war against terrorism in Afghanistan demonstrated clearly the effectiveness of coordinated international action. Australia's contribution was effective and valued. Soldiers of Australia's Special Air Service Regiment (SAS) played an important role in the defeat of the Taliban and the disruption of the al-Qaida presence in Afghanistan. Air force and naval personnel provided vital support to the SAS through their deployment to the regions surrounding Afghanistan. The Government's diplomatic network maintained by the Department of Foreign Affairs and Trade facilitated these deployments.

The long-term international counter-terrorism effort will rely on the resolve of individual nations to take strong action against terrorism by putting in place a legal framework that stops terrorist activities and their sources of funding. Enforcement of these laws, through investigation and prosecution of terrorist organisations and terrorists, will be crucial. The international effort against terrorism is undermined by states that cannot or will not take strong domestic action.

Australia is a relatively well-prepared and capable nation in the campaign against terrorism. Other countries, including some within our region, will need assistance to develop effective counter-terrorism legislative and enforcement regimes. Australia and other developed countries will provide practical help,

such as information exchange and police investigation assistance. Australia will continue to help strengthen governance in the institutions that promote stability. South Pacific nations, particularly those weakened by internal division and poor governance, are vulnerable to the activities of terrorists and so are an important target of the Government's assistance programs. Australia is working towards a memorandum of understanding on counter-terrorism with Fiji.

Australia will sustain and develop its links with countries whose capabilities are crucial for the international war against terrorism. The United States is of enormous importance in this respect because of the diplomatic, law enforcement, military, intelligence and other resources that it can bring to bear against terrorism. The secretive and dispersed nature of terrorists means that intelligence will be of the utmost importance. Cooperation with the United States and other intelligence partners, such as the United Kingdom, is vital to Australia's role in the prosecution of the war against terrorism. The Government will also strengthen bilateral cooperation with the law enforcement, customs and migration agencies of the United States, United Kingdom and other nations.

South-East Asia is a major front in the war against terrorism

The Government is strengthening counter-terrorism links with South-East Asian nations. South-East Asia is where the threat of terrorism to Australian interests is most acute. The Bali attacks signalled a resolve and level of ambition and coordination among regional extremists that threaten directly the more than 45 000 Australians living in South-East Asia and the many thousands of Australians who visit the region each year. Terrorism is jeopardising South-East Asia's stability and Australian interests in this. South-East Asia is where Australia, drawing on its strong ties with the region, can make a significant contribution to the war against terrorism.

Even before the Bali bombings, the Government had identified Indonesia as being critical to the response to terrorism in the region. The Government concluded a counter-terrorism agreement with the Indonesian Government in February 2002. This agreement paved the way for the successful joint investigation into the Bali attacks. The Government will extend this cooperation by offering further practical support to Indonesia's efforts to develop counter-terrorism capabilities.

➤ **Australia working with the region against terrorism**

Australia has strong interests in regional countries strengthening their capacity to counter terrorism. Australia is helping regional countries strengthen their capacities in key areas through a comprehensive program of assistance, including such measures as:

- a \$10 million, four-year program to help Indonesia strengthen the counter-terrorism capacity of its police force, restrict the flow of funds to terrorists, and improve travel security through stronger airport, immigration and customs control capabilities
- training for regional security and intelligence agencies to enhance their capacity to disrupt terrorist activities in the region
- counter-terrorism investigation training in Papua New Guinea, Solomon Islands, Vanuatu and Fiji to improve management and analytical skills and intelligence support during terrorist attacks
- Australian Defence Force counter-terrorism exercises with special forces units of the armed forces of Thailand and the Philippines
- anti-money laundering training and workshops in Papua New Guinea and other Pacific island countries to strengthen regional controls on the flow of funds to terrorists
- assisting Pacific island countries to draft counter-terrorism legislation which they are required to implement under the Nasonini Declaration.

Australia has strengthened its cooperation with other key South-East Asian nations. The Government has signed counter-terrorism agreements with Malaysia and Thailand. It is seeking similar agreements with the Philippines and Cambodia. These agreements, as well as that with Indonesia, provide the basis for better intelligence exchanges and closer cooperation between our law enforcement agencies. The agreements will also complement a counter-terrorism agreement between Indonesia, Malaysia, the Philippines, Cambodia and Thailand.

An effective regional response to terrorism in South-East Asia will require nations to implement strong domestic measures—legal, financial and enforcement. Singapore has indicated its determination to combat terrorism in its arrest of a number of people engaged in terrorist activity. Australia, working with other donors where feasible, will assist regional nations through practical counter-terrorism capacity building. Australia will also maintain governance programs to help regional countries strengthen institutions that promote stability and reduce the risks from terrorism.

Terrorism and South-East Asia's response to it are changing Australia's relationships in the region. They have also changed regional country views of their relationships with Australia. Counter-terrorism collaboration will remain a critical aspect of Australia's relationships in South-East Asia for the foreseeable future.

Australia and South-East Asia have significant shared interests at stake in the region's successful management of the terrorist threat. Australia's interests are best served by a region that is stable and prosperous. Extremists within South-East Asia target not only Westerners, but also seek to destabilise the region's secular governments. The stability of these governments is crucial to the region's longer-term economic interests, particularly its ability to attract foreign investment. Instability would undermine Australia's large-scale trade and investment links with South-East Asia.

Australia is contributing to regional and multilateral efforts

The Government will do what it can to ensure that regional and multilateral organisations make counter-terrorism a priority.

Australia is promoting practical measures, such as procedures for managing the consequences of an attack, within the ASEAN Regional Forum (ARF)—the region's primary forum for security cooperation and dialogue.

Australia is working with other APEC members to tighten maritime and aviation security against terrorism, while seeking to ensure regional economies continue to benefit from the flow of goods and people. APEC economies are implementing controls on the financing of terrorism—a priority for Australia. And through APEC, Australia is seeking to widen the use of advanced passenger registration systems which can help strengthen airline security.

The Government will also pursue other focused regional initiatives. For example, Australia and Indonesia hosted jointly a regional conference to block the funding of terrorist groups in December 2002.

Australia supports strongly the UN Counter-terrorism Committee, established to help UN members strengthen their capacity to combat terrorism. We are already a party to eleven of the twelve UN counter-terrorism conventions and are considering becoming a party to the remaining one. We continue to lobby countries in our region to accede to these conventions. We have played a lead role in UN efforts to develop a comprehensive convention against terrorism. We were instrumental in the listing by the United Nations of the extremist Jemaah Islamiyah organisation, obliging UN members to take action to freeze its assets and restrict its freedom of movement.

Halting the proliferation of weapons of mass destruction

The proliferation of nuclear, chemical and biological weapons of mass destruction and the missiles that can deliver them is a threat to the security of Australia. The possibility that terrorists or states that flout international norms might obtain and use weapons of mass destruction is real. Failure to uphold the internationally agreed rules and norms that constrain—however imperfectly—the proliferation of weapons of mass destruction would do enormous damage to the system of collective security that helps maintain our individual security. So would failure to uphold the authority of the United Nations Security Council that enforces those rules and norms. The introduction of these weapons and missiles into our region could force us to adopt costly counter-measures. Finally, the use of weapons of mass destruction would create an unconscionable humanitarian catastrophe, and would have profound economic consequences for Australia.

Multilateral rules can check proliferation of weapons of mass destruction

Multilateral agreements and institutions are part of the Government's strategy to help prevent the proliferation of weapons of mass destruction. They make the proliferation and use of these weapons more difficult—although they will not, alone, stop it. They provide a basis for the international community to bring collective pressure to bear on offending governments. They make responsible governments more confident that they need not acquire these weapons, even when they are capable of doing so.

The Government will work in particular to strengthen the Nuclear Non-Proliferation Treaty (NPT) and the safeguards system of the International Atomic Energy Agency. Australia benefits from the NPT's assurances that other non-nuclear weapon states will not acquire nuclear weapons, as well as from the significant reductions in nuclear arsenals that have taken place.

Prospects for progress on other important elements of multilateral arms control have receded, and the Government will work with others to find ways of moving negotiations forward. Our strong support for the Comprehensive Nuclear-Test-Ban Treaty (CTBT) is based on the practical view that a complete and effective ban on nuclear testing would help prevent the proliferation, and constrain the development, of nuclear weapons. We are pressing, too, for a start to negotiations of a Fissile Material Cut-off Treaty, to cap permanently the amount of fissile material available to all governments for use in weapons.

The anthrax letter attacks in the United States after September 11 underlined the importance of ensuring that the existing biological and chemical weapons conventions work effectively. A missing element is a compliance regime for the Biological Weapons Convention. Australia will work to make it harder to cheat and more costly for those countries that do, when they are exposed.

Export controls are increasingly important to prevent materials and technologies from falling into the hands of states with poor records on proliferation or weak controls against it. They are a crucial complement to multilateral arms control arrangements. The Australia Group, established and chaired by Australia, works to control the export of chemical and biological material that could be used in weapons. Australia is also active in the Missile Technology Control Regime, which controls the proliferation of delivery systems, and the Nuclear Suppliers Group and the Zangger Committee, which control the movement of nuclear materials.

The engagement of the United States is vital to the success of the multilateral security system. The Government shares US concerns that some states are failing to comply with their legally binding arms control commitments. But we believe that sustained efforts towards effective multilateral agreements and institutions, combined with export controls and bilateral approaches, serve Australia's and the world's security interests. The Government will continue to encourage the United States and other major countries to remain engaged in the multilateral arms control agenda and to find new ways of making arms control work.

The Government understands and sympathises with the US interest in developing missile defences: possession by an irresponsible state of even a small number of missiles, combined with a weapons of mass destruction capability, can pose a grave threat to security.

➤ **The Australia Group**

The need to combat the spread of weapons of mass destruction has become more urgent. The Australia Group plays a pivotal and widely recognised part in international efforts to prevent the proliferation of chemical and biological weapons.

The Australia Group was established in 1985 to prevent Iraq from acquiring, through commercial trade, the means for producing chemical weapons. The Group has expanded its objectives to include the strengthening of global security by preventing countries of concern or terrorists from acquiring chemical and biological weapons. It has expanded from the original 16 countries to 33 countries plus the European Commission.

In line with their binding obligations under the Biological Weapons Convention and the Chemical Weapons Convention, participants in the Group meet this objective by harmonising their national export controls on sensitive dual-use chemical and biological items, and by sharing information about trends in the proliferation of chemical and biological weapons. This ensures a consistency of approach and minimises the opportunity for would-be proliferators or terrorists to shop around to acquire chemical and biological material from Australia Group participants that could be used for weapons.

Australia's chairing of the group since 1985 is a clear demonstration of our long-term commitment to international non-proliferation efforts. It is a tangible example of how we can make a significant contribution to international security through focused and pragmatic leadership.

But multilateral regimes do not always work

Iraq represents a major challenge to international security. The Iraqi regime has used chemical weapons against Iranian soldiers and its own people. Since its unconditional agreement in 1991 to give up weapons of mass destruction, Iraq has continued its efforts to procure equipment, material and technology that could assist its weapons of mass destruction program. Saddam Hussein's desire for weapons of mass destruction remains undiminished. Iraq's flouting of international norms and persistent defiance of the United Nations Security Council call into question the authority of the United Nations and the effectiveness of international law. Saddam Hussein's virulent anti-Western stance and his support for terrorism raise the possibility of his making available weapons of mass destruction to al-Qaida or other terrorist groups. The Australian Government considers continuation of the status quo with regard to Iraq to be unacceptable.

The announcement by the Democratic People's Republic of Korea (DPRK) of its withdrawal from the Nuclear Non-Proliferation Treaty and non-compliance with its international obligations are of profound concern to Australia, countries in our region and the wider international community. A nuclear-armed North Korea would destabilise the Korean peninsula and the region. Australia works closely with key countries, including the United States, the Republic of Korea, Japan, China and Russia and through international organisations, in particular the International Atomic Energy Agency, to convince the DPRK that it must abandon its nuclear weapons ambitions. We will also use bilateral channels to register our concerns with the DPRK. DPRK action to demonstrate it has disavowed nuclear weapons is a prerequisite for carrying forward our bilateral relationship.

Inaction in the face of the threats represented by the proliferation of weapons of mass destruction would bring real risks for longer-term global security. Concerted international pressure is necessary to force countries like Iraq and North Korea to abide by international norms.

Coalitions and peace-keeping are important for global security

Collective responsibility for global and regional threats to peace and security is a test for the international community. It is likely that international military coalitions, whether UN peace-keeping and enforcement operations or ad hoc

coalitions formed by concerned countries, will continue to play an important role in ensuring global security, including against terrorism and the proliferation of weapons of mass destruction. The international community could also face challenges from states that collapse into disorder, possibly producing humanitarian crises that could threaten to involve their neighbours, as has happened in the former Yugoslavia, Sierra Leone and the Democratic Republic of the Congo.

Working through the United Nations, the international community has sometimes acted to deal with such threats. The peace-keeping operation of the United Nations Transitional Authority in East Timor, to which Australia was the largest single contributor, showed how such operations can work well. The Government has recognised Australia's global interests in maintaining an effective international peace-keeping system by contributing Australian forces to UN peace-keeping operations in Africa and the Middle East. The United Nations also plays a valuable role in reconstructing states destroyed by conflict. Its work in Cambodia has improved Australia's security environment. The United Nations will continue to play a key role in helping concerned governments rebuild states whose failure is a threat to international peace and security.

When swift and decisive action is needed to deal with threats to international order, it is likely that national governments will organise international military coalitions themselves. Such coalitions will play a central role in maintaining global security. Conspicuous examples have been the US-led coalitions against Iraq's invasion of Kuwait in 1991 and against al-Qaida and the Taliban regime in Afghanistan, in both of which Australia participated, and the Australian-led INTERFET operation in East Timor in 1999–2000—all operating under mandates from or with the endorsement of the United Nations Security Council.

But when the United Nations has not been able to respond, as in the case of Kosovo, it has fallen to states with the capacity and the willingness to take action to preserve peace and security. In deciding whether to participate in such coalitions, the Government will be guided by whether an Australian role will advance Australia's national security and our global interests.

Combating people smuggling and other transnational crimes

Transnational crime, including people smuggling and trafficking, drug trafficking and money laundering, threatens the sovereignty of Australia and other nations.

Effective responses require resolute domestic action, backed up by coordinated international cooperation. The Government has strengthened links, including law-enforcement cooperation, with key partners in the region and elsewhere. It is engaged in international efforts to develop practical and effective solutions to these threats.

The Government's decisive actions have seen the number of attempted illegal entries into Australia fall dramatically—there have been no unauthorised boat arrivals for over one year. The Government has introduced a range of measures to deter people smugglers, including tougher sentences and improved border surveillance. Its designation of certain Australian offshore territories, including Christmas and Ashmore Islands, as 'excised offshore places' has barred unauthorised arrivals from applying for Australian visas without the discretion of the Government.

Bilateral cooperation reinforces these domestic efforts. Overseas-based Australian Federal Police officers, for example, liaise with foreign law enforcement agencies to investigate, identify, disrupt and extradite known people smugglers—and drug traffickers—who target Australia. Specially trained Immigration Officers based in Australia's missions overseas and at crucial international airports liaise with host governments and with other agencies to collect vital intelligence on people smuggling and illegal people movements, and are actively engaged in preventing and disrupting illegal movement to Australia. Close cooperation with Papua New Guinea and Nauru on offshore processing arrangements is further deterring unauthorised boat arrivals. These offshore arrangements observe Australia's international protection obligations.

Regional efforts are important. The 2002 Bali Ministerial Conference on People Smuggling, which Australia co-chaired with Indonesia, established experts' groups to improve regional cooperation on information exchange and law enforcement. A follow-up conference will be held in 2003.

The Government has appointed an Ambassador for People Smuggling Issues to sustain these international efforts and promote a coherent and effective regional approach to people smuggling. It has directed 20 per cent of Australia's aid expenditure (\$355 million in 2002–03) toward boosting the region's standards of governance and its institutions. And it will assist the development of regional police forces. These efforts will strengthen the region's capacities in these critical

areas, thereby helping them—and Australia—in the fight against people smuggling and other transnational crimes, as well as in their overall development.

The United Nations and its agencies have an important role to play in managing transnational issues. But more needs to be done within the UN system to ensure that it develops practical responses that meet the needs of its member states. Australia advocates a more robust approach by multilateral institutions to global cooperation where we believe they have an important role to play, particularly in developing practical solutions to transnational issues that cannot be as effectively addressed by countries acting alone or bilaterally. We have, for example, led a push for the United Nations High Commissioner for Refugees to remedy weaknesses in the international refugee protection system, and to combat the increasing involvement of organised crime in people smuggling.

Transnational resource threats

Water scarcity, deforestation, pollution and other environmental and resource pressures can have consequences that go well beyond national boundaries. The allocation of water, for example, among different countries will become increasingly contentious. Australia's distance from other states means that we are sometimes not directly threatened by such challenges. But the effects of these problems on the welfare of countries in the region give us an interest in their management. The domestic policies of regional countries will have the greatest impact on these challenges. Australia is helping to promote sustainable resource management through its aid program.

Australia, like other countries in the region, faces growing pressure on resources from illegal, unreported and unregulated exploitation. For example, Australia's fish resources around the sub-Antarctic Heard Island and McDonald Islands are particularly vulnerable to poaching. The Government has improved protection of these and other marine resources through better coordination between government agencies, enhanced surveillance and enforcement, and stronger international cooperation. Australia, at times with the cooperation of other nations, has apprehended six vessels for suspected illegal fishing in Australian waters around Heard Island and McDonald Islands in the past five years.

CHAPTER 4

BUILDING PROSPERITY THROUGH MARKET LIBERALISATION

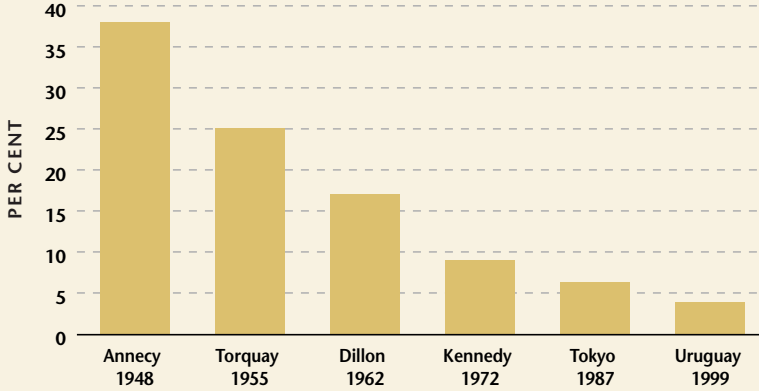
The Government's wide-ranging economic reforms have strengthened the international competitiveness and export performance of Australian industry. Export growth has been strong, and the direction and composition of Australia's exports have become more diverse. Strong export growth has, in turn, made a positive contribution to the growth of the economy. And economic reforms have positioned Australia to cope well with the tests of globalisation and to absorb external shocks.

Australia has been a beneficiary and a strong supporter of the multilateral economic and trade institutions created to promote economic recovery following the Second World War. They have underpinned the global economic growth and prosperity of the past fifty years. They have provided disciplines on arbitrary and unfair restrictions on our trade. They have promoted the liberalisation and global integration of trade in goods and services, from which we have profited.

The deepening of globalisation brings new challenges to existing institutions, such as the World Trade Organization (WTO), the International Monetary Fund (IMF) and the World Bank. It raises questions, too, about whether or how global cooperation can expand to deal with issues that affect Australia's economic interests, such as climate change. And it creates pressures on countries to develop bilateral and regional associations to expand their markets and strengthen their economies.

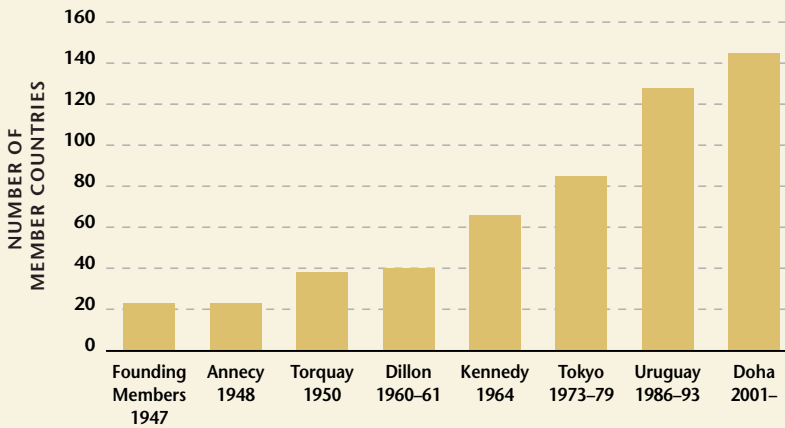
The emphasis of the Government will remain on multilateral trade liberalisation. But the Government's active pursuit of regional and, in particular, bilateral liberalisation will help set a high benchmark for the multilateral system. Liberalisation through these avenues can compete with and stimulate multilateral liberalisation.

➤ **Average industrial tariff by completed WTO round**



Note: Tariffs are of industrialised countries only and are measured at the end of the phase-in period following each round.

➤ **Number of WTO members**



Note: Numbers based on membership at end of rounds.

The international trading system faces new challenges

Global trade rules matter for Australia. The ‘most favoured nation’ rule, for example, is one of the key rules that underpins the multilateral trading system. It means that Australian exports to our largest export market, Japan, face the

same tariffs as those from the United States, even though Australia's bargaining power with Japan is much less than that of the United States. There is nothing inevitable about this and other rules. Their conception and enforcement are the result of long and hard negotiation among governments.

Global trade rules are becoming more important as globalisation deepens. Trade accounts for a larger share of most countries' GDP. More products and services are being traded, and investment is increasingly linked with trade. The direction of most countries' trade is increasingly diverse. All of this is true of Australia.

Globalisation puts pressures on the international trading system and the WTO in a number of ways. First, the WTO now has 145 members, with a further 28 countries in the process of joining—prospectively almost double the membership of 92, when the last round of multilateral trade negotiations began in 1986. The expansion of membership makes negotiations more difficult. Most of the new members, too, are developing countries, with a strong interest in better access to developed country markets for agriculture, textiles and simply transformed manufactures, such as steel. But protectionist forces in major developed countries have become more active, and opposition to liberalisation in these areas is growing.

Secondly, the agenda is growing. As globalisation has deepened and border restrictions such as tariffs have been reduced, governments and businesses have increasingly focused on the effects of regulatory barriers to trade, and the relevance of those barriers to issues such as services, intellectual property, the environment, technical regulations and standards, quarantine and human health measures. Pressure is growing for the use of trade rules in these areas to be formalised or extended.

Countries use different regulatory approaches, and thus bring very different perspectives to multilateral negotiations. And globalisation is leading to legitimate pressures from the public in many countries for the protection of, for example, the environment and consumers. Such objectives are not necessarily protectionist, but the measures introduced by governments to achieve them often are. Australia will resist the application or formulation of trade rules motivated by protectionism.

In the area of food and commodity trade, for example, where we have substantial export interests, we will continue to ensure that new trade rules

dealing with risk continue to be based on science. Agencies in many countries apply the concept of ‘precaution’ in risk management in many areas of domestic regulation, ranging from nuclear safety to food safety. But some countries use precaution and closely allied concepts, such as traceability, to seek changes to international trade rules. They want to undermine science-based decision-making in a way that would allow consumer sentiment to determine international standards and which would, potentially, support unjustified trade protectionist or limiting measures.

➤ WTO dispute settlement

Australia is one of the most active users of the WTO dispute settlement system. We have been involved in 30 disputes, a usage well above our share of world trade. We have achieved significant commercial and systemic gains through the system.

- In 2001 Korea removed restrictions on the sale of imported beef, benefiting Australian farmers by an estimated \$60 million a year.
- In 2001 the United States removed its tariff quotas for imported lamb, which had cost Australian exporters about \$30 million.
- In 2000, following a successful WTO complaint against a US import embargo on shrimp (prawns), in which Australia was a third party, the United States agreed to improved access for Australian prawns.

The WTO dispute settlement system encourages parties to resolve disputes through bilateral consultation before resorting to litigation. Examples of outcomes we have achieved through bilateral negotiations include:

- a reduction in the effect of US coal subsidies on Australian exports
- adjustments to US steel safeguard measures that preserved access for more than 85 per cent of Australian steel exports
- reduced Indian non-tariff barriers to food imports
- less onerous Korean restrictions on the freezing of chilled beef
- less onerous Chilean conditions on the import of live salmon ova.

The Doha Round is our best hope for major trade gains

Australia has performed well in advancing its export interests through the international trading system. We were a key player in the previous Uruguay Round of multilateral trade negotiations and achieved real benefits from it. In particular, the Uruguay Round was a significant but insufficient step in the reform of global trade in agriculture. We can approach the Doha Round with confidence and commitment.

The greatest expansion of access for Australian goods and services exports to global markets is through multilateral trade liberalisation. Such liberalisation means that whatever access one WTO member negotiates with another is available for all other members, including Australia. So the launch of the Doha Round in November 2001 was a major breakthrough for Australia. We had been leading the campaign for a new round for some years, to secure improved market access, strengthen the multilateral system of trade rules and protect and advance our interests in some new areas, such as competition policy and our fast-growing outward investment. Australia's initiative in hosting an informal meeting of trade ministers in November 2002 in Australia was an example of the leadership we have shown in advancing the negotiations.

The Doha negotiations will be difficult, but they will enable us to pursue our global market-access goals. In agriculture and processed food, still the most protected area of global trade and accounting for 19 per cent of Australia's exports, the WTO has a mandate to seek the complete phasing-out of export subsidies, substantial improvements in market access and substantial reductions in trade-distorting domestic subsidies. This will unlock new export opportunities for Australian farmers and producers and give them better prices.

In services, which account for another 20 per cent of our exports, we will be seeking to improve Australian exporters' access to markets in sectors such as education, telecommunications, legal services and financial services. And in manufactures, the largest single component of our exports, WTO members have set a goal of reduced tariffs that will benefit a wide range of exporters, such as those in our automotive industry.

Developing countries will play an important role in the Doha Round. The formal name of the Round—the Doha Development Agenda—reflects its focus on the integration of developing countries into the multilateral trade system.

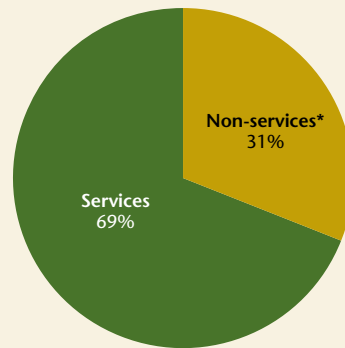
Services

Australia’s economy is underpinned by the services sector. Four out of every five Australian workers are employed in service industries. The liberalisation of key service industries over the past two decades has led to technology transfer, foreign investment and greater price competition and choice.

With globalisation, particularly as a result of the spread of electronic communications, services are increasingly traded. Services exports accounted for \$31.4 billion in 2002. Services exports such as telecommunications, finance, legal services, entertainment, software, tourism and education are important to the Australian economy.

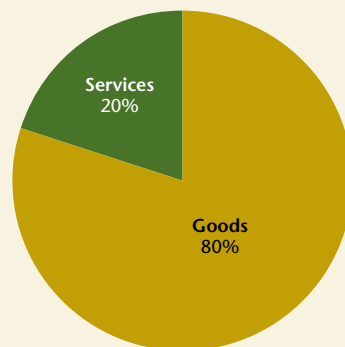
Australia’s tourism exports are worth \$16.3 billion a year and education exports worth \$4.2 billion a year. These compare with Australia’s annual exports of wheat valued at around \$4.1 billion, exports of wool at \$3.6 billion and exports of aluminium at \$4.3 billion. In 1999–2000 Australian exports of films, television and video programs amounted to \$175 million.

Composition of the Australian economy 2001–02



* Includes manufactures, agriculture, home ownership and mining.

Services share of world trade 2001



Developing countries account for a larger share of world trade and a greater proportion of WTO members than at the start of the Uruguay Round. In particular, they are likely to push for meaningful market access in agriculture and textiles and reform by developed countries in these sectors. They have real concerns about the inclusion in the negotiations of many new areas—such as the environment, investment and competition—and want to see other issues, such as the relationship between trade, debt and finance, and between intellectual property protection and public health, fully addressed.

Australia shares many of the interests of developing countries, particularly the desire for improved market access in agriculture and the concern that new rules not be disguised protection. We are working with developing countries in these and other areas. One effective tool is our technical assistance work in our own region and in Africa. We will need to expand our cooperation, to build support among developing countries for objectives that will advance our shared interests.

Functional affinities will strengthen our voice in the Doha Round

The expanding agenda and membership of the WTO have made negotiations far more fluid and pluralistic than they were in the General Agreement on Tariffs and Trade (GATT). This is an environment that calls for a clear-sighted identification of our core national interests and a deft use of functional affinities to assemble coalitions of countries that share those interests. Australia has been active and successful in this. As a country with diverse trade interests—covering commodities, manufactures, services, investment and intellectual property—and one with a crucial interest in the security we gain from global trade rules, we have formed or are active in a wide range of coalitions based on functional affinities.

The most enduring and successful of these is the Cairns Group of agricultural fair-trading nations. The Cairns Group was formed in 1986 when the prospect for international agricultural reform was poor. It played a significant role in the Uruguay Round in bringing agriculture under global trade rules and in building a framework to reduce agricultural support and protection.

The Government will ensure that the Cairns Group remains a dynamic force in the Doha Round and delivers significant reform of global agricultural trade. The reach and influence of the Group have increased in recent years. Its membership has grown since the Uruguay Round. Its message on agricultural trade reform is

➤ **Quarantine: protecting Australia and assisting trade**

Australia takes a conservative approach to quarantine. We have a broad range of agricultural industries which could suffer from pest and disease incursions and we do not have many of the pests and diseases found in other countries. For example, we are free from many of the diseases affecting tropical fruit and animal diseases such as foot and mouth, and 'mad cow' disease (BSE). Should foot and mouth disease enter Australia, the loss of export revenues could be between \$3 billion and \$9 billion, depending on the length of the outbreak.

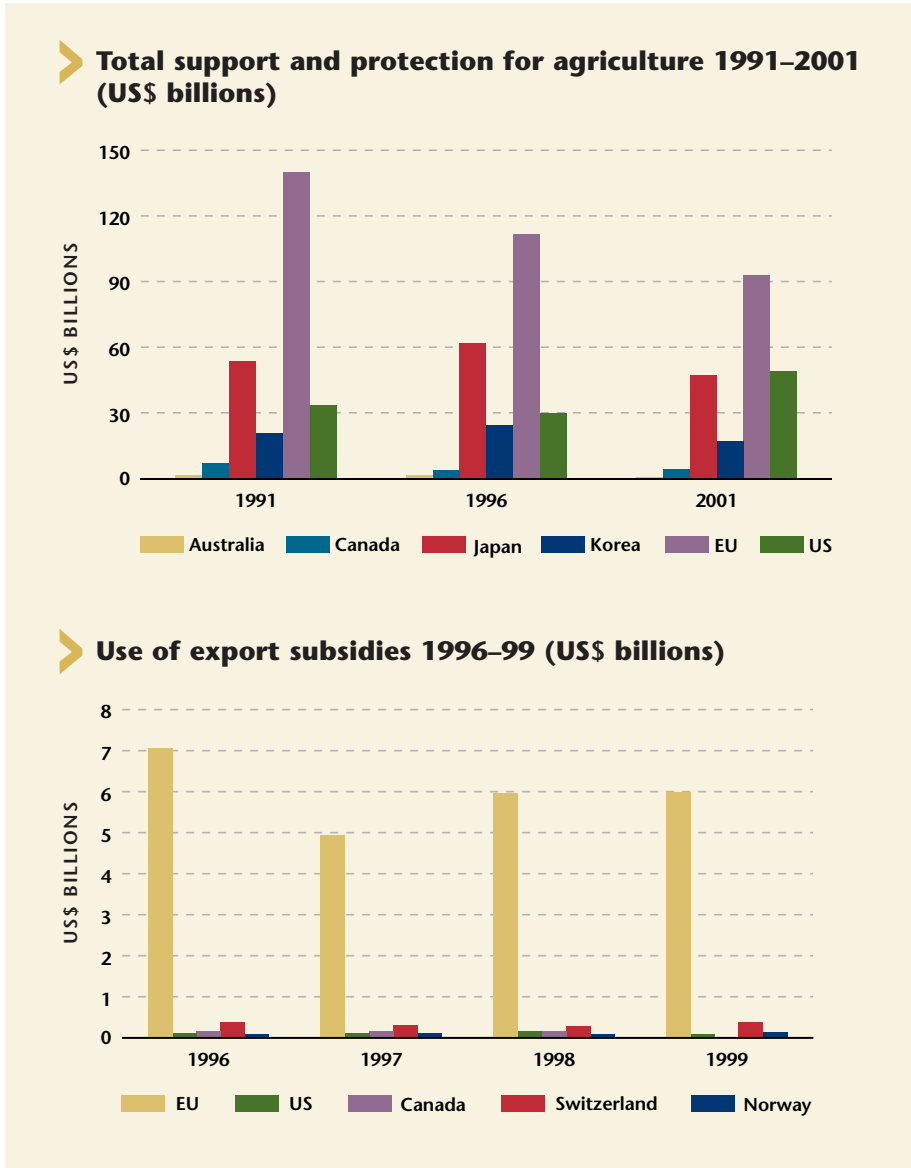
The seriousness with which the Government views pest and disease threats is shown by the \$596 million package of additional funding to strengthen Australia's border agencies announced in May 2001. These additional funds will mean 906 extra staff at airports, seaports, depots and mail exchanges by 2004.

Australia's quarantine regime is consistent with our WTO obligations. Members are obliged to base their quarantine measures on science and be consistent in their application. Australia's own regime is strictly science-based and highly transparent.

Decisions on access of animal and plant products into Australia are made solely on the basis of the scientific risk-analysis process. Access can be provided only if the risk of entry of pests and diseases can be managed at an acceptable level. Stakeholders, both domestic and international, are extensively consulted.

The WTO's science-based rules on quarantine allow the Government to work with Australian industry and quarantine agencies in other countries to maintain access for existing exports, such as our multi-billion dollar meat export industry, and to create new export opportunities, ranging from access for apples into Japan to chilled pork into Singapore.

embraced by more and more WTO members, particularly developing countries that want to expand their export markets. Nowhere is this clearer than in the support of an overwhelming majority of WTO members at Doha for the Cairns Group call for the elimination of agricultural export subsidies.



Given the range of Australia's trading interests, we will continue to be active in coalition building as the Round proceeds. Our functional affinities, rather than traditional alignments or geography, will determine the countries with which we can work to achieve specific objectives. On services, for example, we will work closely with the European Union, with which we share important objectives, such as opening global services markets while preserving cultural diversity.

We will work, too, with others who share our dependence on and commitment to an open trading system. We have, with them, an important role in energising the negotiations and putting pressure on the European Union, the United States and Japan to work for the strongest possible multilateral outcomes. We and others will need to guard against the possibility that the European Union and the United States, which between them account for 52 per cent of world trade, might seek to impose bilateral deals on the rest of the WTO membership.

Global interest in free trade agreements offers us opportunities

While the greatest global trade benefits will come from multilateral liberalisation, progress in the Doha Round and the implementation of its results could be slow. Outcomes could depend on many factors, over some of which Australia will have little control. So interest around the world in economic groupings, whether free trade agreements (FTAs) or other associations, is growing, even while multilateral trade negotiations are under way. And the greater integration of most countries into the global economy means that they are looking for broader associations beyond their borders, to expand and protect their trade and financial markets.

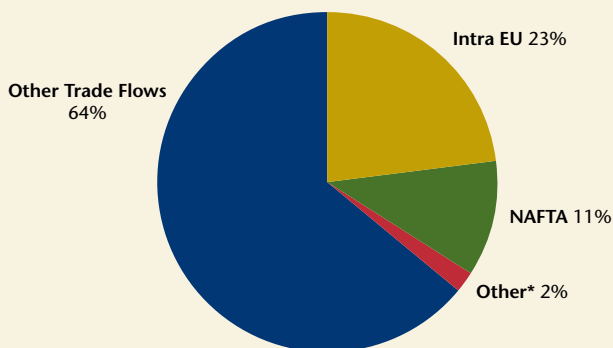
The Government is determined to pursue pragmatically the advantages that free trade agreements offer Australia. Such agreements can deliver important market access gains faster than a multilateral round. They can also go deeper and further than the WTO. In our negotiations with Singapore, for example, we have secured a framework on services that is more liberalising than that in the WTO, and commitments on investment and competition policy that are only partly covered by WTO rules. Free trade agreements can fill out the multilateral framework of rules in such areas as trade facilitation, negotiating detail that is consistent with the letter and the spirit of WTO principles.

Bilateral and multilateral trade liberalisation are mutually reinforcing. WTO rules and commitments provide a basis for bilateral liberalisation. And free trade agreements that genuinely liberalise bilateral trade can contribute to broader, multilateral liberalisation in the WTO. Australia's Closer Economic Relations (CER) agreement with New Zealand is a model of a comprehensive, liberalising, trade-creating free trade agreement that has contributed to multilateral liberalisation.

The Government will pursue free trade agreements in a way that is fully consistent with our WTO commitments and does not take the pressure off multilateral liberalisation. The free trade agreements that the Government negotiates will be comprehensive, not leaving out areas that our partners might find difficult, such as agriculture.

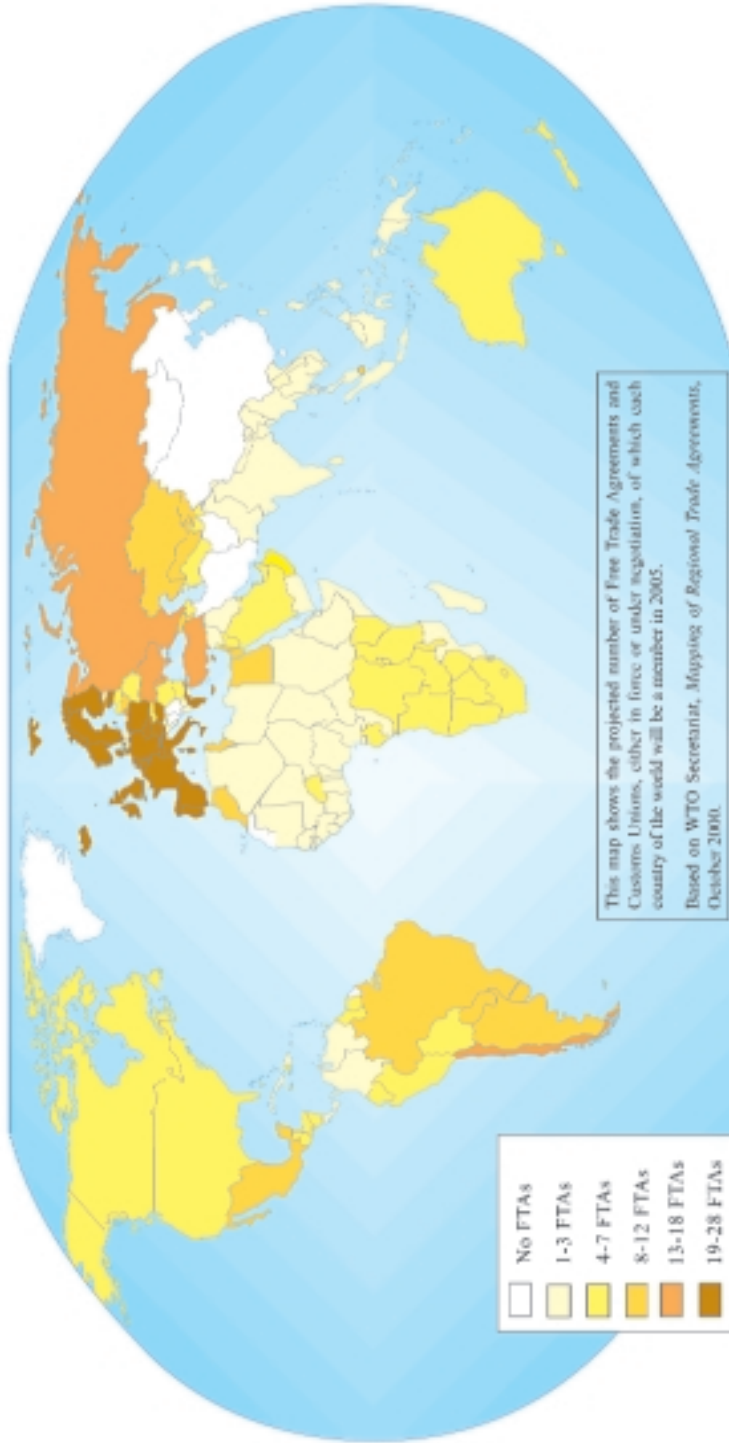
Many other countries are in the process of negotiating or seeking free trade agreements with our trading partners. This could pose risks to our interests if our competitors were to gain preferential access to our export markets. It is possible, too, that investment might be diverted from Australia to other countries that have negotiated preferential access with each other. Inaction as others negotiate free trade agreements could risk an erosion of our competitive position in those markets.

➤ Share of world merchandise exports covered by free trade agreements 2000



* Includes Closer Economic Relations between Australia and New Zealand, the ASEAN Free Trade Area and MERCOSUR.

> Free trade agreements worldwide



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The Government's free trade agreement agenda

A free trade agreement with the United States is the Government's highest bilateral trade priority. It would provide a formal arrangement where both countries could reach agreement on the key trade and related regulatory issues critical to expanding business and trade opportunities. Agreement on these would make it easier and less costly for business to operate between our two markets. An FTA in these terms could be used to establish new benchmarks in other trade forums, including the WTO and APEC.

An FTA would benefit Australian exporters by providing close ties to the world's largest and most dynamic economy. Our exporters would have improved access and greater certainty in the US market. Australia would become a more attractive destination for US investment. And Australian firms would gain from greater exposure to competition from US models of business management and technology.

An FTA that removed all barriers and harmonised standards could produce net economic welfare gains of about \$40 billion, shared almost evenly between both countries, over 20 years. It could increase Australian exports by 0.8 per cent and imports by 0.4 per cent by 2006.

The Government has concluded negotiation of the Singapore–Australia Free Trade Agreement (SAFTA). Once implemented, SAFTA will create a more open, transparent and predictable framework for bilateral trade and investment across a broad range of areas, particularly in services trade. A number of barriers to Australian legal, financial, educational and financial services exports to Singapore worth up to \$120 million a year will be eased or removed. The agreement goes beyond WTO commitments in areas such as telecommunications regulation, competition policy, government procurement, the movement of business people, investment and the provision of intellectual property rights. And it provides a first-rate template for liberalising agreements with other countries.

The Government has also begun free trade negotiations with Thailand. It is prepared to consider negotiating agreements with other partners, in our region and beyond, if there is a likelihood of a genuinely liberalising, comprehensive outcome that will deliver commercial benefits to Australia. The Government will pursue bilateral agreements with the objective of linking Australia more firmly to all major regions.

Comprehensive free trade agreements with some significant trading partners, such as Japan and Korea, are unlikely in the near future because of those countries' entrenched protection against agricultural imports. The best way at this stage to improve the capacity of Australian companies to do business in those markets and to guard against the erosion of our competitive position is by the negotiation of broad-ranging trade and economic agreements. The Government has proposed such agreements with those countries, as well as with China, and is now discussing with them the contents and form. The Government is also exploring the prospect of similar agreements with other countries. Its immediate objective with these will be the facilitation of trade and investment, but such agreements will enable us to continue to push for the longer-term goal of eventually moving to free trade.

➤ **Resourcing the Government's trade policy agenda**

Over the past sixteen months, the Government has focused the resources of the Department of Foreign Affairs and Trade on the pursuit of Australia's most ambitious ever trade policy agenda by:

- creating a new Office of Trade Negotiations with focused responsibilities and increased staffing
- appointing senior-level Special Trade Negotiators for Agriculture and for Free Trade Agreements
- creating an Asia Trade Task Force dedicated to the negotiation of free trade agreements and trade and economic agreements in Asia
- increasing the resources of Australia's mission to the World Trade Organization, with an additional senior official supporting the agriculture and other negotiations
- establishing a Trade Advocacy and Outreach Section to sharpen the focus of the Government's promotion of the benefits of trade to the Australian community.

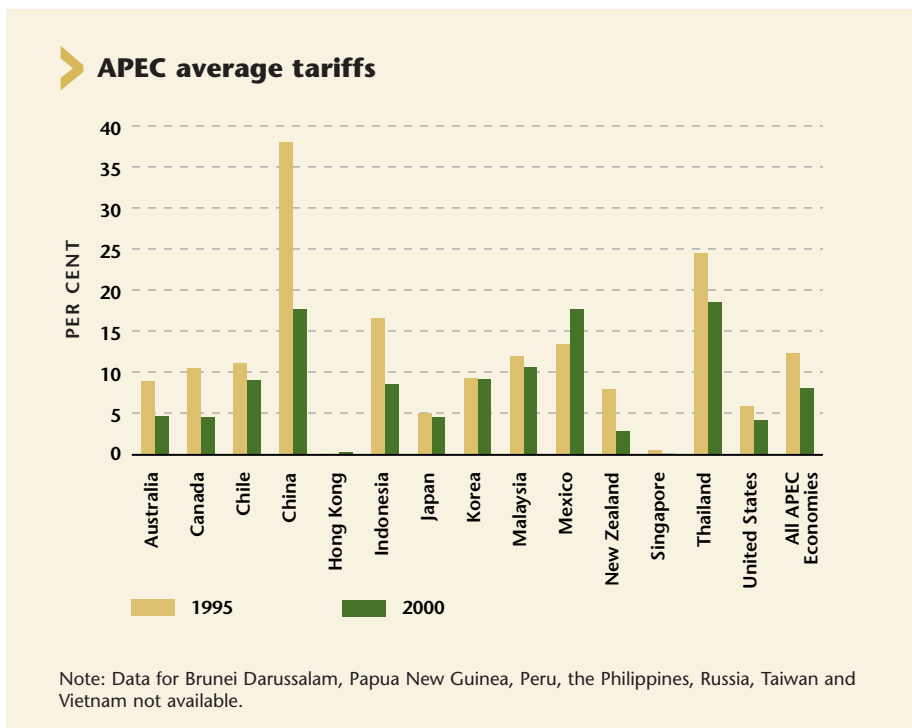
In response to the goal of doubling the number of Australian exporters by 2006, Austrade has overseen the establishment of the New Exporter Development Program and an expansion of the TradeStart network.

Similarly, the Government is promoting trade, investment and economic integration with the countries of ASEAN through the Closer Economic Partnership (CEP) framework between ASEAN and Australia and New Zealand. The CEP work program supports the longer-term objective of reducing impediments to Australia’s trade with ASEAN. And when conditions allow, the Government will be well positioned to move forward ambitiously on trade and investment liberalisation.

Advancing the regional trade agenda through APEC

Australia has a profound interest in the development and consolidation of open and transparent markets and stable institutions in the Asia-Pacific region. APEC is the pre-eminent forum to achieve this. It is the only forum that covers both sides of the Pacific Ocean and includes key states such as the United States, China, Japan, Russia and Indonesia.

APEC has made significant progress towards achievement of the Bogor Goals of free and open trade and investment in the region by 2010 for developed



economies and 2020 for developing economies. APEC's average tariff declined from 12 per cent to 8 per cent in the five years from 1995. Over two-thirds of APEC imports now take place at tariff levels of 5 per cent or less. Political leadership, peer pressure and transparency have all encouraged the lowering of tariffs and other trade barriers.

APEC is not a forum for tariff negotiations. But its role and that of the WTO in securing trade liberalisation are mutually reinforcing. The Doha Round will be an important mechanism for achieving the Bogor Goals, and APEC will be a key forum for building political support for the Round. Regional free trade agreements, too, could work towards the Bogor Goals, and Australia will push to maximise the benefits for all APEC economies of such agreements.

APEC's agenda goes well beyond trade liberalisation. The East Asian financial crisis underlined the importance of domestic financial and economic reforms, including the need for major improvements in economic and corporate governance. Australia has been and will continue to be active in driving APEC's work on corporate governance, strengthening economic legal infrastructure, movement of business people and improving the functioning of markets.

The continuing reduction in tariffs underscores the benefits and importance of trade facilitation measures in areas such as paperless trading, customs simplification and standards harmonisation. Trade facilitation is a core task of APEC and Australia will continue to push for this agenda to produce cost savings for our exporters, including through such initiatives as the action plan agreed by APEC leaders in 2002 to reduce the costs of trade by 5 per cent in five years. Achievement of this goal could increase APEC's GDP by an estimated 0.9 per cent or US\$154 billion a year.

APEC is a diverse group of economies. Some are willing to move faster on trade facilitation and liberalisation objectives than others. The Government will work closely with various groups within APEC that are prepared to move quickly on specific trade and investment initiatives. Such an approach, proposed by Australia and endorsed by APEC leaders, is designed to build momentum within APEC instead of allowing the development of a lowest common denominator outlook.

For the Government, APEC remains the pre-eminent regional grouping. It is capable of further development to deal with a range of issues that no other

prospective regional organisation could address so well. The annual APEC Leaders' meeting provides an important opportunity for heads of government to strengthen trust and confidence at the highest level, helping to ensure the broader economic and political stability of the Asia-Pacific region. The decisions taken by APEC leaders in 2001 on counter-terrorism and the discussions among leaders and ministers on East Timor at the 1999 meeting showed APEC's ability to broach issues of significance to the region beyond trade and economic cooperation. The Government is committed to building on these achievements.

➤ **Export promotion**

Export promotion is an important element of Australia's trade policy. Effective export promotion requires a whole-of-government approach. Federal and state ministers, government officials and business representatives all play an important role in promoting Australia's export capabilities to a global audience. This whole-of-government approach was evident in ALNG's successful bid to supply China's first liquefied natural gas project worth up to \$25 billion over 25 years.

The Australian Trade Commission (Austrade) is the Federal Government's principal export promotion agency. The services offered by Austrade can reduce the risks and costs of developing an export business. For small and medium-sized firms in particular, Austrade services such as the Export Market Development Grants (EMDG) scheme can play a crucial role in export development. In 2001–02 the EDMG scheme provided \$143 million in government assistance to nearly 3200 small and medium-sized Australian firms. The Government is committed to ensuring that these services reach firms in rural and regional Australia. Under the TradeStart program, by the end of 2002 Austrade had established nearly all of the planned 52 offices in rural, regional and outer-metropolitan Australia.

Austrade's programs work. Australian Bureau of Statistics data indicate that non-exporting firms using these programs are almost five times more likely to achieve export success than those that do not use Austrade's help. >>

>> *Doubling the number of exporters*

The rapid growth in exports over the past decade has been underpinned by the Government's economic reform program and the increased efficiency of Australia's economy. The number of exporting firms grew by 8 per cent a year in the late 1990s. But it is still low in comparison with other developed economies. There were 25 000 exporters in Australia in 2001, or around 4 per cent of all businesses. This compares with 58 per cent in Finland and 15 per cent in Canada.

The Government's goal is to double the number of exporters to 50 000 by 2006. This could create additional export revenue growth of over 5 per cent a year, or \$40 billion over the five-year period. More businesses engaged in exporting means greater opportunities for job creation, particularly in regional and rural Australia. The greatest potential for increasing the number of exporters lies in the small to medium enterprise sector.

Trade promotion and facilitation will be central to this goal and the Government is working to provide support for new and existing exporters through programs such as the TradeStart network and Austrade's New Exporter Development Program.

Doubling the number of exporters will give a major domestic focus to Austrade's work. Working with other agencies, Austrade will encourage more businesses to see exporting as a principal means of expansion and heighten public awareness of the role exports play in Australia's economic development.

The environmental agenda: protecting Australia's unique national interests

International action on the environment, including in the Doha Round, will have important implications for Australia's economic, trade and environmental interests. The international environmental agenda will continue to be driven to a significant degree by the European Union and the United States, with their very

different approaches to domestic and global environmental protection. Two trends are of particular concern to Australia. First, the tendency is growing for countries to use trade measures inappropriately to achieve environmental objectives, in ways that could damage our export interests. Secondly, the European Union is seeking increasingly to use international environmental negotiations to advance regulatory regimes that are modelled on its own domestic arrangements. Such arrangements can, if applied globally, be excessively prescriptive and often unnecessarily costly to implement, and they may not always result in significant environmental outcomes.

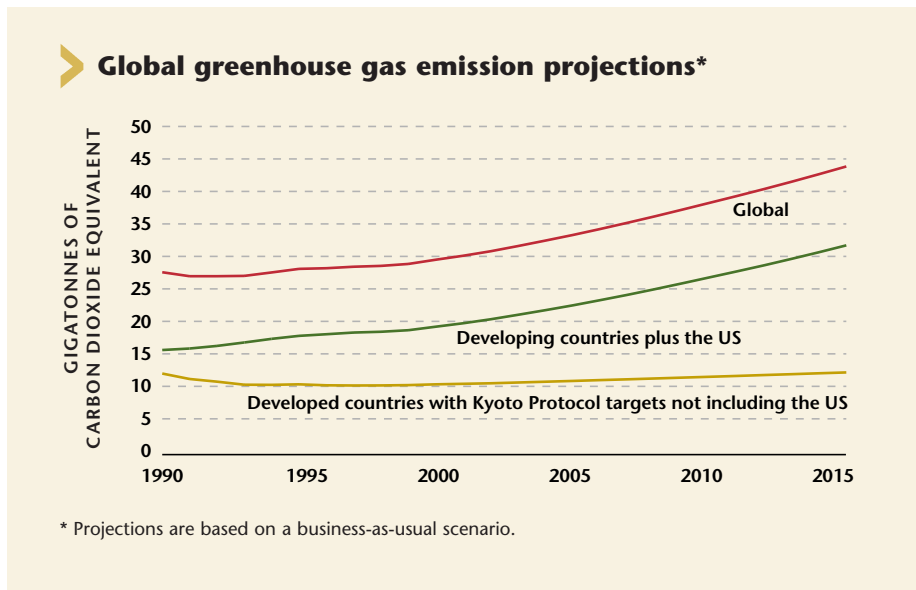
Some environmental problems are global in nature and warrant multilateral responses. We will engage actively in environmental negotiations and play our part in addressing these problems. The Government will work to build coalitions with others to maximise our influence. But Australia's position will continue to be determined by our unique national interests. We will seek to achieve negotiated multilateral outcomes that tackle root causes and offer robust solutions for those environmental problems that require international cooperation. However, the results of negotiations might not always be in keeping with our interests. We might choose to stand aside from particular multilateral environmental agreements.

Climate change poses a major challenge for all countries, both in terms of the environmental impact of higher levels of greenhouse gases and the costs of stabilising and reducing the emission of such gases. Australia is particularly exposed to climate change. We have competitive advantages in industries that are currently high emitters of greenhouse gases, such as oil, gas, coal and aluminium, as well as industries that are linked to vulnerable ecosystems, such as agriculture, forestry and tourism.

To contribute to global efforts to respond to the challenge of climate change, Australia will continue to develop and implement domestic programs to meet the target agreed in the Kyoto Protocol and to achieve its longer-term climate change goals. But Australia has decided not to ratify the Kyoto Protocol under current circumstances. The Protocol does not include commitments from developing countries and the United States has said that it will not ratify. So not all major emitters are engaged. Ratification by Australia could risk Australia's emission-intensive industries facing costs that their overseas competitors do not.

The Government will continue to work for a global response that effectively addresses the causes of climate change, and one that ensures that Australia does not bear a disproportionate share of costs and that our unique national circumstances are taken into account. In doing so, we will build on our solid record of domestic action on climate change, and work with a wide range of countries, including developing countries.

The Government rejects alarmist claims that have been raised about the negative effect of trade and trade liberalisation on the protection of the environment and sustainable development. Trade liberalisation, economic reform and improved national governance together contribute powerfully to sustainable development. The elimination of trade-distorting and environmentally harmful subsidies in fisheries and agriculture, for example, would have a positive effect on the protection of the environment. The Government opposes calls for changes to WTO rules that would, in effect, grant an automatic exemption for measures taken pursuant to multilateral environmental agreements. WTO rules already allow members to pursue environmental objectives. Eroding key WTO disciplines, such as those requiring science-based decision making, would not help protect the environment and could threaten the interests of countries like Australia that are heavily dependent on food and commodity exports.



Australia has worked closely with other agricultural exporters to ensure that international decision-making in environmental and sustainable development forums does not result in trade distortions and to advocate the elimination of trade-distorting and environmentally harmful subsidies in agriculture and fisheries. We have been at the forefront of efforts to build support for this contribution to sustainable development in trade forums, such as the WTO, environmental negotiations and in organisations that contribute to development, such as the Food and Agriculture Organisation.

We are making a strong contribution to international financial architecture reform

The strength of Australia's financial system and its capacity to withstand external shocks ensure that we are well placed to contribute to the international financial reform agenda. As an active and influential member of major international forums, including the International Monetary Fund (IMF), World Bank, Financial Stability Forum and the Group of 20, Australia has made a strong contribution to the direction of international financial reform.

We are also a respected voice in regional forums that address global and regional financial reform. Australia plays a major role in meetings of APEC finance ministers, the Manila Framework Group set up to discuss strategies for dealing with the East Asian financial crisis and the Executives' Meeting of East Asia-Pacific Central Banks. And East Asian countries have also started to improve policy dialogue and strengthen regional financial cooperation. These are positive and welcome developments. Australia strongly supports measures to improve economic and financial stability in the region.

The complexities of the international economic system and the size and speed of financial flows pose enormous challenges for orderly economic management. Continual reform of the financial architecture is necessary to prevent the emergence of financial crises like that in East Asia in 1997, and to minimise contagion and the effects on individual countries.

The role of the IMF is crucial to maintaining the stability of the international financial system that underpins global trade and growth. Australia has played an important part in the major reforms to ensure that the IMF can continue to play this role. Duplication and overlap between the programs of the IMF and the

World Bank have been reduced. Improvements to loan facilities mean that the IMF can respond more quickly and effectively to countries facing economic difficulties. Monitoring and policy-making capacities have been improved so that the IMF will be better able to detect early signs of crisis. And, importantly, the IMF is working more closely with the private sector to improve its ability to identify capital account crises and to involve the private sector in the prevention and management of crises.



CONSOLIDATING AND EXPANDING OUR BILATERAL AND REGIONAL RELATIONSHIPS

CHAPTER FIVE:

ACTIVELY ENGAGING
WITH ASIA

CHAPTER SIX:

STRENGTHENING OUR
ALLIANCE WITH THE
UNITED STATES

CHAPTER SEVEN:

HELPING OUR PACIFIC
NEIGHBOURS CONSOLIDATE
THEIR FUTURE

CHAPTER EIGHT:

DEVELOPING DEEPER
RELATIONS WITH AN
ENLARGED AND
INCREASINGLY
COHESIVE EUROPE

CHAPTER NINE:

ADVANCING OUR WIDER
GLOBAL INTERESTS

CHAPTER 5

ACTIVELY ENGAGING WITH ASIA

The countries of Asia have always mattered to Australia. Close engagement with them is an abiding priority in Australian external policy. The issue for Australian governments is not what priority to accord Asia, but rather how, as circumstances change, Australia can best advance its national interests in its relationships with Asian countries.

The Government's commitment to Australia's relationships in Asia proceeds on the basis of mutual respect. It focuses on the common interests between Australia and the countries of Asia, while acknowledging our differences.

This approach recognises Asia's great diversity. Asian countries differ in their political and economic systems and their stages of development, as well as in their cultures and traditions. These differences inform individual countries' interests and approaches to domestic, regional and global issues.

The Government will continue to ensure that Australia's foreign and trade policy effort in Asia is calibrated carefully, taking account of Asia's changing circumstances and diversity. It will focus effort on those relationships and issues that matter most to Australia's interests.

Australia's economic interests and strategies in Asia

Australia has a major economic stake in Asia. Asian markets accounted for about 56 per cent (\$67 billion) of Australia's total merchandise exports in 2002. Seven of Australia's top ten export markets are in Asia.

More than 40 per cent of Australia's merchandise exports go to North Asia. This includes our largest export market, Japan, and our fastest growing major East Asian market, China. South-East Asian markets take more of our exports today than they did before the 1997–98 East Asian financial crisis. India is our twelfth-largest merchandise export market and fastest growing major market in Asia.

➤ **Australia in Asia: key events in a history of engagement**

- 1947 Australia initiates UN intervention in the colonial war between Indonesian Republicans and the Dutch, and supports the Republic in its efforts to obtain independence
- 1947–50 Australia supports independence for the countries of South Asia, and supports India remaining in the Commonwealth despite its status as a republic
- 1950–53 Australia commits forces to the UN-authorised Unified Command in defence of South Korea from an attack by North Korea
- 1950–60 Australia contributes forces to Malayan emergency
- 1951 Colombo Plan begins, leading to some 40 000 students from Asia studying in Australia over 35 years
- 1957 Australia concludes a Commerce Agreement with Japan
- 1965–72 Australia involved in the Vietnam War
- 1966–67 Japan overtakes the United Kingdom as Australia's largest export market
- 1968 Negotiation of Five-Power Defence Arrangement with Malaysia, Singapore, United Kingdom and New Zealand
- 1972 Australia recognises the People's Republic of China
- 1975–89 After the fall of Saigon in 1975, Australia accepts over 130 000 Indochinese refugees—on a per capita basis the highest ratio of all resettlement countries
- 1976 Australia and Japan sign the Basic Treaty of Friendship and Cooperation or Nippon-Australia Relations Agreement (NARA)
- 1989 First meeting of APEC is held in Canberra after Australia proposes the grouping
- 1989–93 Australia leads the development of the UN peace plan for Cambodia and provides the Force Commander for the UN Transitional Authority in Cambodia
- 1997 Australia one of two countries (with Japan) to contribute to the IMF rescue packages for countries affected by the East Asian financial crisis (Indonesia, Korea and Thailand)
- 1999–02 Australia leads a multinational force in East Timor and plays a key role in support of the subsequent UN transitional administration leading to East Timor's independence in 2002

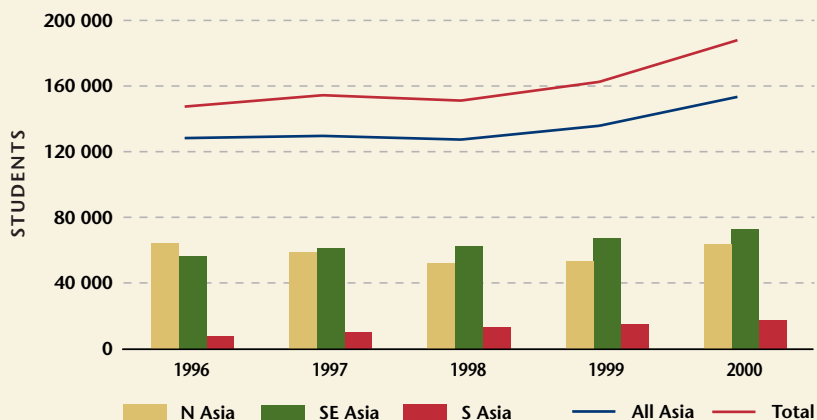
These ties are mutually beneficial. As a strategic supplier of industrial raw materials and energy to East Asian economies, Australia has contributed directly to their post-war economic growth. Our expatriate communities in key business centres of Asia are integral components of the region’s economies. Our education system is a significant centre of learning for Asian students, long after the first such students came to Australia in large numbers under the Colombo Plan. And Australia’s economic strength has boosted our ability to contribute to the prosperity of Asian countries, shown most clearly in our support for regional economies during the financial crisis.

The Government will seek new strategic bilateral economic agreements with Japan, China and Korea. In South-East Asia the Government will pursue strategic trading relationships with key regional economies, including through free trade agreements that we have established with Singapore and are pursuing with Thailand.



Asia’s Australian education

Australia’s total education exports were worth \$4.2 billion in 2002. Some 188 000 students—about 154 000 from Asia—attended Australian institutions here and abroad in 2000, a 15.6 per cent increase over 1999.



Tertiary education accounted for nearly 60 per cent of education exports to Asia in 2000—or about 89 000 students. One-third of these students attended campuses established in Asia by Australian universities; the remaining attended institutions in Australia. English language and vocational education made up the bulk of the remaining exports, about 29 000 and 25 000 students respectively. Some 10 000 school students from Asia studied at Australian institutions.

Australia’s security interests and strategies in Asia

Australia will continue to contribute to regional security and stability through its strong and recognised defence capability, its alliance with the United States, its extensive network of defence relationships with most Asian countries and its counter-terrorism cooperation and capacity building in the region.

➤ **Australia's bilateral security relationships in Asia**

A stable regional security environment is fundamental to Australia's national interests. Australia has established a network of bilateral defence and policing relationships and security dialogues that includes most countries in Asia. Bilateral political–military dialogues on security issues help promote greater understanding and shared interests, and bilateral defence cooperation assists the Australian Defence Force (ADF) to work with security forces in the region.

The Government is strengthening Australia's counter-terrorism links with the region. It is using its recently established network of bilateral counter-terrorism agreements to help others detect threats and prevent further terrorist attacks. These agreements build on the already extensive cooperation between Australian and regional police forces on transnational threats to Australia's and the region's security.

Australia's strategic defence relationships in South-East Asia are longstanding and involve wide-ranging defence activities. They provide opportunities for the ADF to interact, train and operate with the defence forces of Singapore, Malaysia, Thailand and the Philippines. We are taking an incremental approach to building our defence relationship with Indonesia. We are building our defence relationships with East Timor, Vietnam, Cambodia, Laos and Brunei. In North Asia, Australia's strong defence relationships with Japan and South Korea are underpinned by shared interests and our respective alliances with the United States. Australia's deepening defence links with China are directed at developing dialogue on strategic issues. Australia's security ties with India and Pakistan include defence representation in each country and staff college exchanges, and in the case of India, a formal strategic dialogue.

The relationships among the major powers engaged in Asia—the United States, Japan and China—are fundamental to our security interests in the region. These powers have the greatest ability to shape the regional security environment. North Asia is where the interests of key global powers intersect.

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The US strategic presence is the most significant and positive force for stability in Asia. It is reinforced by its alliances with Australia, Japan, Korea, the Philippines and Thailand. A productive relationship between the United States and China that enables the successful handling of differences over Taiwan is essential for regional stability. Australia has a strong interest—and will assist where it can—in the peaceful management of the Taiwan issue, and in defusing tensions on the Korean peninsula, the other major flashpoint in East Asia.

Our proximity to South-East Asia gives us a strong stake in this region's stability. The region encompasses important communication links and sea lanes vital to our trade interests—up to 20 per cent of world sea cargo transits the Malacca Straits. Terrorism threatens South-East Asia's stability and prosperity and our interests in the region. Australia will continue to help regional countries to take the steps necessary to build their counter-terrorism capacities.

South Asia poses a particularly difficult challenge for regional security. The international community has only limited influence over the seemingly intractable tensions between nuclear-armed India and Pakistan. A stable relationship between the two is also important for the continued successful prosecution of the war against terrorism.

In a region with little history of security cooperation, the ASEAN Regional Forum (ARF) is the principal forum for security dialogue in Asia. It has made modest gains in building a sense of strategic community and has contributed to the region's counter-terrorism work. But efforts to develop tools of preventive diplomacy and conflict management have faltered. Australia will continue to support the ARF's work, while remaining open to proposals for new or enhanced dialogue, such as regular meetings of regional defence ministers.

Our partnership with Japan is enduring and successful

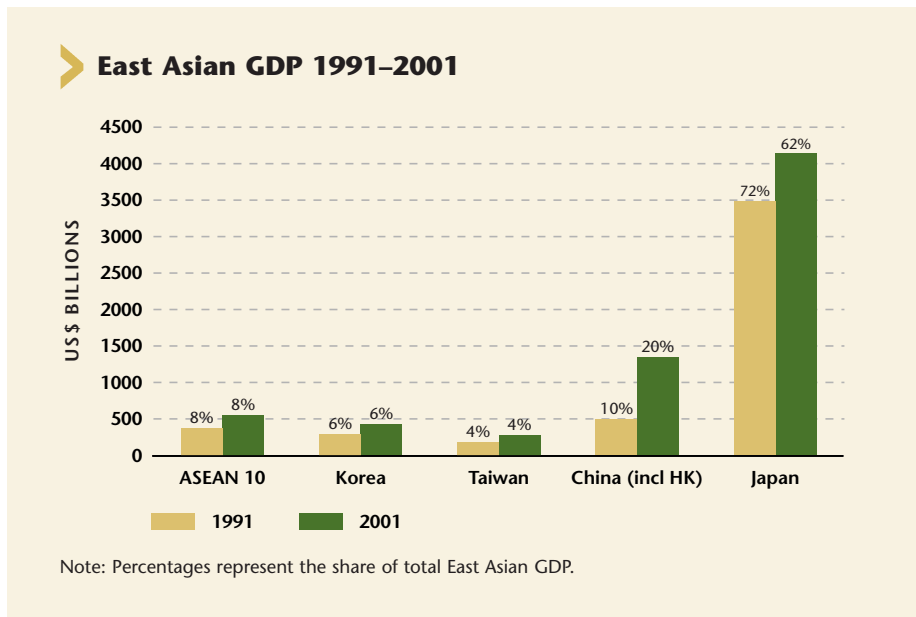
No country in Asia will supplant Japan's importance to Australia's prosperity for at least another decade. Japan is the world's second-largest economy and the largest in Asia by several magnitudes.

Japan is grappling with the challenges of far-reaching economic and political change. Japan has struggled with the inflexibilities of its established development model and political system. Its population is ageing rapidly and, in the absence of significant immigration, is projected to shrink from 2007.

To meet these challenges, and to underpin Japan’s continued important regional and international role, decisive reforms are needed.

Australia has major economic and security interests at stake in Japan. Japan is our largest export market, taking almost twice the value of merchandise exports to our second-largest market, the United States. Our exports grew by almost 60 per cent in the past decade and account for 3.7 per cent of Australia’s GDP. The jobs of some 380 000 Australians depend on exports to Japan. Japan is also our third-largest foreign investor: Japanese companies employ directly 50 000 Australians, and 200 000 when supply chains and sub-contractors are taken into account.

Australia’s security links with Japan are becoming more important as the constitutional and political constraints on Japan’s security policies are gradually loosened. Japan’s forthright response to the September 11 terrorist attacks has reinforced our congruent security interests in our respective alliances with the United States. Japan has shown greater willingness to contribute to international peacekeeping operations. Its contribution to the peacekeeping operation in East Timor is an example of how we can work together to enhance our mutual security and that of the region.



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The Government is acting to ensure the long-term vitality of the relationship. The Government has agreed to work with Japan to identify opportunities to strengthen economic links. The Government's objective is a formal trade and economic agreement, perhaps leading in the longer term to a free trade agreement (FTA). The Government will work to deepen security cooperation, drawing on our alliances with the United States and Japan's willingness to play a greater security role. We will seek new areas of cooperation, including on social issues, that broaden the mutual benefits of our partnership.

Expanding ties with a growing and more influential China

China's rising economic, political and strategic weight is the most important factor shaping Asia's future. China's economic opening has strengthened its international links, but has also presented its leaders with difficult economic and social challenges.

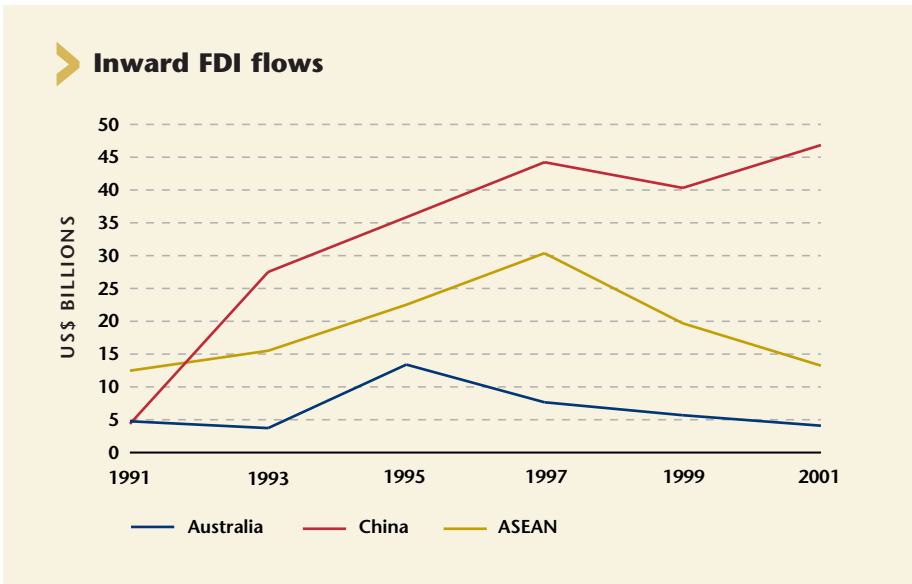
Building a stronger partnership with a growing and more influential China is an important objective in Australian policy. The Government has worked with China at the highest levels to build a common understanding of how we can manage relations in a way that makes the most of our shared interests while acknowledging our differences. Our one-China policy will remain a fundamental element of our relations with China—as it is in our considerable economic ties with Taiwan.

The Government will work toward a framework agreement to strengthen the long-term trade and investment relationship. It is building a strategic economic relationship with China similar to those Australia has established with Japan and Korea. The successful tender to supply liquefied natural gas to China's first LNG project is a significant step towards establishing a long-term strategic partnership with China in the energy sector. China is now our third-largest trading partner. Australian merchandise exports to China have doubled over the past five years to \$8.4 billion. China's World Trade Organization (WTO) accession should provide the basis for stronger bilateral trade and investment ties in the longer term, so long as China manages well the implementation and domestic pressures of its accession.

China is an increasingly important player in international affairs and in institutions that are important to Australian interests. China's accession to the WTO and support for the war on terrorism are positive signs that it takes

seriously its international responsibilities as a major power. Australia will continue to engage China, including through our human rights dialogue and re-established annual security and disarmament talks, to encourage a similarly positive approach in other areas such as human rights and non-proliferation.

China's leaders recognise that a stable regional security environment is essential for China's economic development. They also recognise that a productive relationship with Washington is in China's interests. However, China's relationship with the United States is a complex interaction of strategic, economic and political issues, most notably Taiwan, that makes it difficult for both sides to manage. Some bilateral tension is inevitable. Australia has strong interests and a supportive role to play in helping both sides manage these tensions and their relationship more broadly.



Republic of Korea: congruent interests, growing opportunities

Australia's strong relationship with Korea is grounded firmly in our economic ties and congruent security interests. Korea's determined response to the East Asian financial crisis has revived the vitality of its economy and sustained its place as our third-largest export market. We have strong shared security interests, underwritten by our alliances with the United States. The Government will draw

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on the affinity of Australian and Korean interests to strengthen relations through more formal economic agreements and security dialogue.

The admission of the Democratic People's Republic of Korea (DPRK) that it has been operating a uranium enrichment program—in breach of its international obligations—has led to an escalation of regional tensions. Early and full compliance by the DPRK with its commitments is in its interests, including its desire for economic assistance and development of relations with countries like Australia. The Australian Government will continue to work closely with our regional partners, including the United States, the Republic of Korea and Japan, to address these concerns and support inter-Korean cooperation and reconciliation.

Assisting Indonesia's historic transition

Australia has a fundamental national interest in Indonesia's stability. We strongly support Indonesian unity and territorial integrity. Indonesia's creation of a robust and functioning democratic system is crucial to achieving these goals.

Terrorism and Islamic extremism pose significant threats to Indonesia's transition to a modern democratic state and to its fragile economy. Indonesia's ability to deal with these threats is crucial for its own and South-East Asia's stability, and for its links with the rest of the world.

Australia is committed to working with Indonesia to deal with terrorism. Australia and Indonesia have concluded a bilateral agreement on counter-terrorism cooperation. This agreement paved the way for the successful joint investigation of the Bali attacks. Australia will offer further practical help to Indonesia's development of counter-terrorism capacities.

Our political relationship with Indonesia has endured some difficult periods, including when Australia led the INTERFET operation in East Timor in 1999. The Government will continue its efforts to build a productive relationship, building on the underlying strength of our commercial and people-to-people links.

Indonesia is, and will remain, an important economic partner. It is our tenth-largest export market and in 2000 was the largest source of foreign students in Australia (over 17 000). Some 400 Australian companies have a presence in Indonesia and Australia is its eighth-largest foreign direct investor.

Even without the threat of terrorism, Indonesia's economy is vulnerable and requires sustained international financial support through organisations such as the IMF, World Bank and Paris Club. It is important that the Indonesian Government use the opportunity this support provides to press ahead with domestic economic reform. This is the only viable option to create a foundation for sustainable long-term growth.

South-East Asia: growing security concerns, slow economic recovery

The Bali terrorist attacks have thrown into stark relief the need for South-East Asian countries to act decisively against the regional threat of terrorism. The attacks demonstrate a resolve among regional terrorists which, if not countered, will undermine stability and international confidence in South-East Asia.

Several ASEAN countries have led South-East Asia's response to terrorism. The Philippines, Malaysia and Indonesia have concluded a trilateral counter-terrorism agreement. And Singapore acted swiftly to arrest a number of people involved in terrorist activity. Still, countries in the region need to do more. Australia is committed to supporting a strong South-East Asian response to terrorism. To this end we have concluded counter-terrorism agreements with Indonesia, Malaysia and Thailand and we aim to conclude similar agreements with others in the region.

Australia's counter-terrorism cooperation with South-East Asian countries adds to our strong bilateral relationships in the region. Economic ties have grown well, with ASEAN countries taking 12 per cent of our merchandise exports in 2002. Our security cooperation through the Five Power Defence Arrangement, which includes Malaysia and Singapore, the ARF and bilateral security dialogues, is strong. Australia's lead role in the INTERFET force in East Timor drew heavily on the support of South-East Asian nations, particularly Thailand and the Philippines. Extensive people-to-people links through education, migration and tourism add depth and stability to our relationships.

South-East Asian countries have still not fully recovered from the effects of the 1997-98 East Asian financial crisis. The crisis undermined confidence in the reform process and the outward economic orientation that had helped the region secure strong rates of growth for over a decade. It resulted in governments placing a greater reliance on domestic and regional policies. Increased caution on trade liberalisation has challenged ASEAN's ability to deliver

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on its ASEAN Free Trade Area commitments and complicated broader international economic engagement.

Regional governments have made significant progress in remedying shortcomings exposed by the crisis. But more needs to be achieved, particularly in the areas of corporate and financial sector reform and strengthening of institutional frameworks. Australia is an important partner in supporting this process. A significant proportion of our aid budget is now devoted to promoting improved economic governance in the region through capacity-building and training initiatives.

East Timor faces a challenging future

East Timor's hard-won independence was a significant milestone for its people and the region. But the new nation faces a very difficult future. East Timor must contend with many challenges, including weak institutions, high unemployment and a fragile economy. Australia has a strong interest in East Timor's prosperity, stability and security. We will continue to provide substantial aid—and encourage other donors—to help East Timor build effective national institutions of government and public administration.

India's growing importance

India's weight in international affairs is increasing. Its military capabilities and economy are growing steadily from a significant base. Our exports to India have recorded double digit growth annually over the past decade, buoyed by India's strong economic growth. India's continued good economic performance will depend in part on the resolve with which New Delhi pushes ahead with economic reforms.

The Australian and Indian Governments are committed to developing a more dynamic and forward-looking approach to the bilateral relationship. Substantial institutional and practical cooperative links are being built. Democratic and institutional affinities between our countries enrich the quality of our dialogue. Regular bilateral ministerial and official forums provide an effective framework for strengthening our foreign policy dialogue and expanding the commercial relationship. Strong potential exists for building on synergies in the information technology sector, and on existing growth in the export of education and tourism services to India. The latter will strengthen people-to-people links

between Australia and India. India's growing strategic influence and its nuclear capabilities make it important for us to engage India on strategic matters. The Government has expanded the dialogue on military and security issues.

Australia and East Asian architecture

Australia was a founding member and continues to play a leading role in the key regional organisations of the Asia-Pacific, notably APEC and the ARF. APEC is the pre-eminent forum to foster the development of open and transparent markets in the region. The annual APEC Leaders' meeting provides an important opportunity for heads of government to strengthen trust and confidence at the highest level, helping to ensure the broader economic and political stability of the Asia-Pacific region. The ARF is the primary forum for regional security dialogue and cooperation. Both APEC and the ARF help reinforce US engagement in the region. Australia will work to ensure that APEC and the ARF continue to play a key role in promoting regional cooperation on economic and security issues.

An important question for Australian policy towards the region is how we should respond to the evolving East Asian regional architecture centred on the ASEAN+3 summit process, which involves the ten countries of ASEAN and the three North Asian powers—Japan, China and Korea. While the process still has a long way to go before its full significance can be determined, it is reasonable to assume that there will be benefit to the region and to partners such as Australia in a process which fosters dialogue and cooperation among the countries of East Asia and thereby contributes to regional stability and harmony. It remains to be seen whether or not the ASEAN+3 process will lead over time to comprehensive preferential trade arrangements or to other political or economic alignments of lasting significance, but clearly the possibility of this occurring at some stage in the future cannot be ruled out.

From the outset, membership of the grouping has been deliberately restricted to East Asian countries. The impetus that motivates the ASEAN+3 process has several dimensions: a desire to establish a stronger international identity and profile for East Asia; a desire by the ASEAN countries to compensate for their relative economic weakness by associating more closely with the bigger economies of North Asia; and the aspirations of Japan and China—partly in competition with each other—to establish stronger claims for regional

leadership. Above all, and especially in the aftermath of the East Asian financial crisis, there is a feeling that East Asians should be able to demonstrate the capacity to work together to find East Asian solutions to East Asian problems.

Australia would be pleased to be involved in the ASEAN+3 process. We have registered our interest in joining the grouping if invited at some later stage, and emphasised the desirability of the process having the character of an open and inclusive form of regionalism. Such an approach will reinforce rather than undermine East Asia's important external links with the United States and Canada, with Australia and New Zealand, and with Western Europe. But our participation is a matter for the countries of ASEAN+3 to decide.

Australia goes out to the region not as a supplicant but as a partner seeking to work with our neighbours for mutual benefit. Australia is already contributing to the emerging regional architecture in key areas, including the Bali ministerial-level meetings on people smuggling, the Australia–Indonesia–East Timor trilateral ministerial meeting and the South-West Pacific Dialogue. Our bilateral counter-terrorism agreements will help build a more effective regional approach to this serious threat to regional security. And on the economic side, the Closer Economic Partnership that has been established between Australia and New Zealand and the ASEAN Free Trade Area, the bilateral free trade agreements that we have concluded with Singapore and are negotiating with Thailand, and the bilateral trade and economic framework agreements that we are discussing with Japan and China are all excellent examples of the appropriate Australian policy approach.

CHAPTER 6

STRENGTHENING OUR ALLIANCE WITH THE UNITED STATES

Australia's longstanding partnership with the United States is of fundamental importance. The depth of security, economic and political ties that we have with the United States makes this a vital relationship. No other country can match the United States' global reach in international affairs. Further strengthening Australia's ability to influence and work with the United States is essential for advancing our national interests.

Australia and the United States share values and ideals that underpin our strong relationship. We both have deep democratic traditions and aspirations, elements of a common heritage and a lasting record of cooperation and shared sacrifice. Our security alliance is a practical manifestation of these shared values. It is the centrepiece of a much broader relationship in which the United States is our largest foreign investor and largest single trading partner. The extent of shared interests gives us considerable scope to cooperate bilaterally and internationally to achieve better outcomes for us both.

We have much in common with the United States, but we each have our own national interests and priorities. We disagree on some security issues, including the need for US commitment to implement the Comprehensive Nuclear-Test-Ban Treaty and strengthen the Biological Weapons Convention. US protection of domestic industries and the excessive agricultural production support of the Farm Bill harm Australian industries. The Government will continue to stand up for our interests where our views differ from US views. In this regard, the very close bilateral relationship is an important asset in the Government's advocacy of Australian interests.

The United States' continuing global pre-eminence

The United States will remain the pre-eminent global power for the foreseeable future. Its military power will not be surpassed quickly or easily. The United States spends five times more than any other nation on its defence forces. The numerical strength of US forces is backed by unrivalled technology. No other nation can project and sustain forces abroad on anywhere near the same scale.

The US economy accounts for about one-third of global GDP—greater than the next four countries combined (Japan, Germany, the United Kingdom and France). Although the United States is a net debtor, its economy has significant underlying strengths—its policy settings, research infrastructure and productivity growth. Cyclical and other short-term factors will continue to affect the US economy. But the fundamental strengths of the US economy should continue to bolster its economic performance over the longer term.

The United States must negotiate frequently as an equal with the European Union on economic, especially trade, issues. But it often has decisive influence in the international institutions that set the rules for global trade and finance. Progress in these areas is extremely difficult without US support.

US culture, ideas, society and technology have worldwide prominence. US exports of its culture through global distribution of television, film and music are unmatched by other countries. The United States is the most sought-after destination for foreign students. US spending on research and development totalled about \$500 billion in 2000, more than the amount spent by the next five biggest-spending countries combined. US users and service providers represent the largest single national group on the Internet. But the profile of the United States makes it a convenient target for those who resent the spread of Western ideas and values more broadly.

The United States has immense capacity to act unilaterally to protect its interests. It is reluctant to sacrifice the option of unilateral action entirely, but recognises that there are issues on which cooperation with others is worth pursuing and sometimes even necessary—in part because of international community expectations. Australia will often have strong interests in persuading the United States to work with others. US involvement in coalitions and

international bodies is more likely to strengthen international action and produce more substantive and lasting outcomes.

Our lasting security alliance

Australia's ANZUS alliance with the United States is fundamental to our national security. The ANZUS commitment to consult and act against a common threat is directly relevant to the defence of Australia. And as a pillar of US engagement in Asia, the alliance strengthens the stability of our region.

Strengthened by fifty years of cooperation, ANZUS continues to be the foundation of a dynamic and broad-ranging security relationship. Australia and the United States hold joint exercises, exchange personnel, share strategic assessments and exchange intelligence. The Joint Defence Facility at Pine Gap monitors arms control and disarmament agreements and military developments, providing invaluable intelligence for Australia's—and the United States'—security.

Defence technology and procurement cooperation under the alliance is vital to maintaining the qualitative edge of Australia's defence forces. Through this cooperation Australia gains access to US world-leading defence technologies. Such access will be increasingly important as Australia upgrades many of its defence platforms over the next two decades.

The ANZUS alliance has proven its continuing relevance to our shared security interests in recent years. The United States provided valuable logistics and personnel to the Australian-led multinational force in East Timor. Australia invoked the ANZUS treaty for the first time and deployed forces to and around Afghanistan in the war against terrorism. And Australia and the United States have established a formal dialogue on counter-terrorism issues, including in our region. Australia's credentials as a valuable and respected partner of the United States have been reinforced by these events. We have never been better placed to put our views to the United States—and have them heard—including on issues where we disagree.

The Government wants to deepen the alliance to ensure that it continues to deliver for Australia and the United States as the international security environment evolves. The annual meeting of Australian foreign and defence ministers and their US counterparts, AUSMIN, will continue to be an important

forum for setting the strategic direction of the relationship. The Government will place a high priority on extending the practical intelligence, defence exercise and procurement and technology links between our defence forces.

Our largest economic relationship

Australia's agreement with the United States to negotiate a free trade agreement (FTA) is a significant step toward raising bilateral economic ties to a level commensurate with the security relationship. The United States is our largest single trade and investment partner and second-largest export market. It is our largest market for elaborately transformed manufactures. Australia is the eighth-largest foreign holder of US assets—some \$117 billion worth of direct investment in 2000. The United States is our largest source of foreign investment (\$235 billion in 2000–01). Many US-based corporations have a well-established presence here and some have headquartered their Asian operations in Australia.

The openness of our economies has boosted the growth of economic ties. But there are points of friction in our trading relationship. US industry policies can harm Australian interests, as Washington's past decisions to protect its lamb and steel industries demonstrated. The new Farm Bill, which has increased significantly the subsidies American farmers can expect to receive, harms our interests. These actions weaken US leadership on trade liberalisation, which is crucial for the success of the current World Trade Organization (WTO) round, and weaken pressure on the European Union and Japan to reform their protected agricultural sectors.

The Government will continue to encourage US leadership in the WTO and on global trade reform through our strong ties to the Administration and Congress. The decision of Congress to grant Trade Promotion Authority, thus strengthening the ability of the Administration to pursue global trade liberalisation, was welcome. But Australia remains concerned by protectionist sentiment within some sections of Congress.

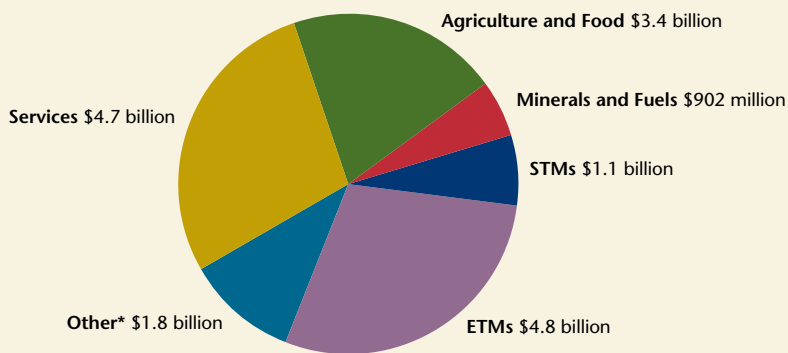
An FTA offers significant benefits to both sides. It would provide a formal arrangement where both countries could reach agreement on the key trade and related regulatory issues critical to expanding business and trade opportunities. Agreement on these would make it easier and less costly for business to operate between our two markets. An FTA in these terms could be used to establish new benchmarks in other trade forums, including the WTO and APEC.

An FTA would benefit Australian exporters by providing close ties to the world's largest and most dynamic economy. Our exporters would have improved access and greater certainty in the US market. Australia would become a more attractive destination for US investment. And Australian firms would gain from greater exposure to competition from US models of business management and technology.

➤ **Our exports to the United States are diverse**

Australia's merchandise exports to the United States were valued at \$12 billion in 2001–02. Beef was the single largest export (\$1.8 billion). But manufactures accounted for half of all merchandise exports. Vehicles are the largest elaborately transformed manufactured export (\$588 million), but exports of veterinary supplies, office equipment and aircraft parts are each worth several hundred million dollars. Services exports—mostly transport and tourism and, increasingly, financial and computing services—were worth \$4.7 billion in 2001–02.

➤ **Value of exports to the United States 2001–02**



* Includes confidential items, gold and special transactions.

Source: ABS cat. 5368, DFAT.

An FTA that offered genuine gains for Australian exporters, including agricultural producers, is worth pursuing. The Government is under no illusion about the difficulties that will be involved in negotiating an FTA. The Government will draw on the strong support of the Australian and US business communities and the significant backing the proposal has in the Administration and Congress. Both sides understand the challenges but recognise that an FTA would enhance significantly this vital bilateral relationship.

➤ **Adding up some of the benefits of an Australia–United States FTA**

An Australia–United States FTA that removed all trade and legislative barriers and harmonised standards could:

- produce net economic welfare gains of about \$40 billion, shared almost evenly between both countries, over 20 years
- boost Australia's GDP by 0.4 per cent (about \$4 billion) by 2010 and by \$31 billion over 20 years
- deliver Australia greater benefit (as a share of GDP) because of our relative economic size and the higher relative importance of trade to our economy
- increase Australian exports by 0.8 per cent and imports by 0.4 per cent by 2006
 - dairy exports would rise by 354 per cent, albeit from a low base, to \$520 million
- raise investment in Australian industry, particularly in the agricultural (sugar and dairy) and mining sectors.

Source: Centre for International Economics, *The Economic Impact of an Australian US Free Trade Area*, 2001 (www.dfat.gov.au/trade).

CHAPTER 7

HELPING OUR PACIFIC NEIGHBOURS CONSOLIDATE THEIR FUTURE

Australia has major interests in the stability and development of the countries of the South Pacific, particularly the neighbouring Melanesian countries of Papua New Guinea (PNG), Solomon Islands, Vanuatu and Fiji. The Australian public and the international community not unreasonably believe that we have special responsibilities in this region. So Australia will continue to engage closely with the South Pacific.

History has tied Australia intimately to the nations and peoples of the South Pacific. Australia helped to shape some of the island states as they became independent—their economic bases, power-sharing arrangements between the centre and the provinces, and philosophy of governance. And in some cases we passed on our institutions and the ideas underpinning them—constitutions, parliaments, public services, legal systems and security forces. Australia is the region's main source of imports and investment, a leading aid donor and major defence and security partner.

Many South Pacific countries face a difficult future. Patchy economic progress is often insufficient to cope with ethnic and social tensions and rapid population growth. Most of the island countries have limited resources, and therefore limited capacity to deal with these pressures. Governance is poor. As the Fiji coups, the Bougainville crisis and disorder in Solomon Islands have shown, imported national institutions can find it difficult to deal with traditional practices, especially in relation to authority structures, land ownership and land use. Local loyalties often take priority over national interests and challenge principles of good governance. For the foreseeable future, instability will be a feature of our immediate region.

The South Pacific matters to Australia

Instability in the South Pacific affects our ability to protect large and significant approaches to Australia. The Government also has a duty to protect the safety of the 13 000 Australians resident in the countries of the region—some 7000 in Papua New Guinea alone. And transnational crime in and through the region—terrorism, drug trafficking, people smuggling, illegal immigration and money laundering—is a growing threat to Australia and the South Pacific countries themselves. Cooperation with the South Pacific on such issues, particularly people smuggling, has delivered real benefits to Australia. The establishment of Australian-funded processing centres in Nauru and PNG showed how regional countries can cooperate to deal with an issue of concern to the region as a whole.

Australia's economic interests are substantial. In 2002, Australian merchandise exports to the South Pacific (excluding New Zealand) were worth \$2.5 billion. Direct Australian investment stock was estimated at \$2.3 billion. Poor governance damages these interests. Australian merchandise exports to Solomon Islands, for example, fell from \$99 million in pre-crisis 1999 to a low point of \$55 million in 2002.

What Australia can and cannot do to help

Australia cannot presume to fix the problems of the South Pacific countries. Australia is not a neo-colonial power. The island countries are independent sovereign states. They want and need to tackle their problems in their own way, developing systems of government which the governed accept as fair, equitable, effective and true to themselves, and which deliver basic services. When problems are so tightly bound to complex cultural traditions and ethnic loyalties, only local communities can find workable solutions.

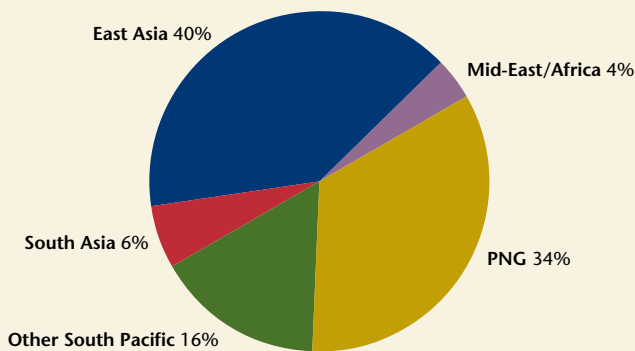
Australia stands ready to help those South Pacific countries willing to help themselves by tackling the problems of poor governance and economic underperformance. We are prepared to help them to make their government systems more efficient, affordable and responsive to both traditional and modern pressures. Wherever the South Pacific intersects with Australia's interests and responsibilities, we will support the island countries generously. Recognising this, Australian aid to the South Pacific has increased from \$429 million five years ago to \$516 million in 2002–03.

➤ **Australian aid fostering stability in the South Pacific**

Australia's aid program in the South Pacific is an integral part of the Government's broader efforts to promote regional development and stability. The program is focused on building the capacity of Pacific countries to manage the economic, security and social challenges they face. In practice this involves support for a number of mutually reinforcing activities that aim to:

- improve economic management and governance to encourage economic growth and stability, and better use of resources
- enhance the capacities of police and judicial systems to strengthen stability and support local efforts to reduce tensions and conflict
- improve public sector operations, especially people's access to effective health and education services
- foster public participation in social and economic decision making by Pacific governments.

➤ **PNG and Pacific countries receive the larger share of bilateral aid**



Note: Figures based on 2002–03 budget estimates for country program allocations.

Flexibility will be crucial, requiring a varying mix of foreign policy, aid and sometimes defence or policing responses. We will be guided by our experience and lessons learned, but realise that we cannot be prescriptive or try to apply a one-size-fits-all approach. Australia (and other donors) can do much to help reform-minded governments in the South Pacific. But our ability to work with or influence governments which lack a commitment to reform is limited.

We will work closely with the region's police forces and immigration services and help to boost the capacity of local law enforcement and border security agencies. We will make a substantial effort to support economic reform that is sustainable and realistic, working with regional economic policy makers, especially through the annual Forum Economic Ministers Meeting. Such reform is vital if South Pacific island states are to cope with the economic challenges they face. Australia's ratification of the Pacific Agreement on Closer Economic Relations is an example of how we are collaborating in a practical way to promote regional economic development through the creation of more effective trade arrangements.

At times Australia will work bilaterally with South Pacific states; at other times, we will work in concert with New Zealand and major non-regional donors, through regional organisations (especially the Pacific Islands Forum), the Commonwealth or the United Nations, or the international financial institutions, such as the IMF and World Bank. It is in Australia's interests—and in the interests of Pacific nations—to encourage Japan, France, the United Kingdom and the European Union in general to remain actively engaged in the South Pacific.

Papua New Guinea's mounting challenges

Among the island countries of the South Pacific, Australia's strategic, economic and consular interests are greatest in Papua New Guinea. Notwithstanding its natural resource wealth, the introduction of economic and political reforms and substantial Australian and international assistance, Papua New Guinea will continue to face huge economic, social and political challenges. If current growth rates are maintained, its population is estimated to double by 2025 from the current five million. HIV/AIDS is emerging as a major health and development challenge for PNG, affecting about one in every 350 Papua New Guineans. The resources sector that has underpinned economic development and attracted foreign investment faces an uncertain future. Over the next 10 to

15 years much current mining and petroleum production will be exhausted. A further decline in national income over the next few years seems unavoidable and the PNG Government faces a significant economic policy challenge to re-establish the foundations for sustainable improvements in living standards. In the meantime, dependence on external assistance will increase.

Papua New Guinea will look to Australia to help keep poverty and lawlessness in check. The onus for meeting these challenges will lie with independent Papua New Guinea; Australia can—and will—play a supportive role.

Australia will continue to encourage sustainable economic and political reform and the strengthening of basic services. The Government supports close engagement between Papua New Guinea and the International Monetary Fund and multilateral development banks. Australia will also help Papua New Guinea to build affordable, capable and loyal security services and to strengthen its border security, including in the Torres Strait area. Both countries will have to work hard and with goodwill if this unique and complex relationship is to continue to deepen and mature.

Integration with New Zealand is well advanced

New Zealand is Australia's most important ally in the South Pacific and an important partner beyond. Over many decades, New Zealand has made valuable contributions in areas of high priority to Australia, most recently in East Timor, Bougainville and Solomon Islands and in responding to people smuggling.

Australia and New Zealand share a special relationship as allies, as close economic partners and with unique inter-governmental structures and people-to-people links. But we remain two sovereign nations which must manage that uniquely close relationship. For both countries it will be important to deal with each other realistically and pragmatically, deciding on a case-by-case basis whether our individual national interests require us to work together or separately.

The trans-Tasman relationship will necessarily evolve as differences in economic strength, political systems, ethnic composition and strategic outlook become more apparent. But Australia has a strong and direct interest in a dynamic relationship with an outward-looking and economically strong New Zealand.

Closer Economic Relations (CER) is more than a free trade agreement. It is one of the most successful examples of economic integration in the world and a model for others. The liberalisation of services trade, for example, under CER has had a significant effect on thinking on how to approach global rules for services trade, including in the World Trade Organization. It and related agreements provide a seamless business environment through a common approach to many standards and regulatory issues. CER is the benchmark for Australia's approach to other free trade agreement negotiations.

Since the inception of CER in 1983, trans-Tasman merchandise trade has increased by 10.6 per cent annually. For the whole of that period, New Zealand has been either our largest or second-largest market for elaborately transformed manufactures. Total bilateral trade amounts to over \$16 billion and New Zealand is our fifth-largest trading partner. A significant number of Australian jobs depends on the New Zealand market. Trans-Tasman investment is also extensive. Australia is the largest foreign investor in New Zealand, with investments worth more than \$21 billion. New Zealand has \$12 billion invested in Australia, making it our ninth-largest investor.

An ambitious program of integration will continue, through increased regulatory coordination, harmonisation of business laws, closer alignment of securities systems and more work on taxation. But there will probably be political, economic and practical limits to further integration, such as the idea of a common currency.

The flows of people across the Tasman are substantial. Neither Australia nor New Zealand wants to put at risk the entitlement of our citizens to free movement, residence and work in each other's country. So both countries have a common responsibility to protect the integrity of our borders and immigration processes.

Both countries benefit from the bilateral defence relationship. Australia will continue to work closely with New Zealand on defence issues and will continue to encourage New Zealand governments to see defence as an important tool of strategic diplomacy, even though our strategic visions and proportions of defence spending will probably differ.

CHAPTER 8

DEVELOPING DEEPER RELATIONS WITH AN ENLARGED AND INCREASINGLY COHESIVE EUROPE

Europe is undergoing momentous change. The expansion and deepening of the European Union will have a significant impact on the international system. While there is an active debate in Europe on the pace and scope of integration, the European Union's enlargement to 25 members by 2004 will boost its weight as an international actor. Its economy is already comparable in size to that of the United States and its strategic weight is likely to increase steadily. The inclusion of many former communist countries of central Europe will bind them to EU norms of democracy, the rule of law and a market economy. Combined with NATO expansion, this offers Europe the prospect of unprecedented stability and prosperity.

The countries of Europe are important to Australia. Our bilateral ties are extensive, covering economic engagement and security cooperation, and are underpinned by strong people-to-people links. The European Union's evolution, particularly the increased cooperation and common positions on issues that were once the preserve of member states, requires new strategies to maintain the effectiveness of our engagement with Europe. The European Union's increasingly unitary behaviour will be an asset when we share common objectives, but a greater complication for our ability to achieve desired outcomes when our interests diverge. And a more unified Europe is having a noticeable impact on the processes and agendas of international diplomacy particularly at the multilateral level.

Bilateral relations are the bedrock of Australia's European engagement

Considered as a single entity, the European Union is our most important trade partner and our second-largest investment partner. In 2001–02 it accounted for almost 18 per cent of our total trade. Our merchandise exports to the European Union have been growing strongly, up 12 per cent annually over the past three years. The United Kingdom and Germany are among our top ten trading partners. The countries of Europe account for over one-third of all inward investment, while over a quarter of all Australian investment abroad is in Europe.

We have important security relationships with many European countries. The United Kingdom, Denmark, France, Germany, Ireland, Italy, Norway and Portugal all provided significant personnel, military hardware and financial contributions to the Australian-led INTERFET operation in East Timor. The United Kingdom, France and Germany are important sources of defence technology, such as the Hawk Trainer Aircraft and the Franco-German Tiger armed reconnaissance helicopter. Together with New Zealand, Australia also has a trilateral agreement with France to cooperate on disaster relief operations in the South Pacific. We have worked productively with European countries in multilateral forums to achieve positive outcomes on the Comprehensive Nuclear-Test-Ban Treaty, Biological and Chemical Weapons Conventions and related disarmament and non-proliferation issues to help improve global security.

People-to-people links are deep and longstanding. Australia's cultural identity draws heavily on our predominantly European heritage. Nearly 90 per cent of Australians have European ancestry. Almost 19 000 new European migrants arrive annually and over one million Europeans visit Australia each year, while around 700 000 Australians travel to Europe. The great sacrifices made by Australians during two world wars in Europe are an integral part of our national history and identity, and represent a strong Australian contribution to Europe's evolution over the past century.

Russia could become a more important partner for us. Its transformation from a centrally planned to a market-based economy, integrated into the global economy, will be a complex and gradual process. But dependence on foreign markets, capital and technology, and its aspirations to join the World Trade Organization (WTO), will drive Russia's increased international economic engagement. Australia is a potentially valuable economic partner as Russia looks for assistance to develop its vast natural resources. In the wake of the

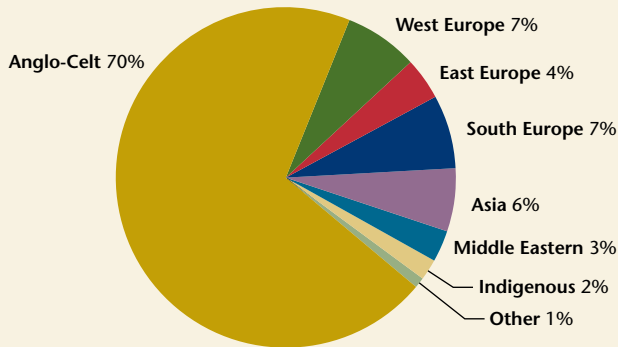
➤ **Australia's links with the United Kingdom**

Australia has a particularly important relationship with the United Kingdom based on our vibrant trade and investment links, close alignment of our security interests and our shared values and history. In the current uncertain international security environment, the great value of our close defence and intelligence ties with the United Kingdom stands out.

Australia has inherited from the United Kingdom, and adapted to our own national conditions, many of the values and institutions that underlie our system of government and society—the parliamentary system of democracy, an independent judiciary, respect for the rule of law, independence of the press and the principle of free speech.

Exceptionally strong people-to-people ties are an enduring foundation of our relationship. One in eight Australians was born in the United Kingdom or has a parent who was born there. More Australians live and work in the United Kingdom than in any other foreign country. More than 600 000 Britons visit Australia each year, and more than half the Working Holiday Maker visas issued world-wide by Australia go to UK citizens. Australia and the United Kingdom measure themselves against each other in a wide range of sports. >>

➤ **Australia's ethnic origins—1999**



Source: 2001 ABS Yearbook.

» The United Kingdom is our fourth-largest trading partner after the United States, Japan and China. It is our sixth-largest merchandise export market (up from our eighth-largest ten years ago) and our second-largest services export market.

The United Kingdom is the second-largest source of foreign investment in Australia (25 per cent of total investment). The United Kingdom is also the second-largest destination for Australian investment abroad (14 per cent of total) after the United States. Over 1400 Australian companies invest in the United Kingdom.

The United Kingdom is a major power with global influence. Its military and intelligence capabilities are strong and sophisticated, and it is one of the few countries able to project and maintain high-quality military forces on a large scale. These strengths are important assets in the campaign against terrorism and international efforts to check the proliferation of weapons of mass destruction. Australia's defence forces and intelligence organisations benefit from cooperation with the United Kingdom—and, particularly on intelligence, the United Kingdom benefits from Australia's capabilities.

September 11 terrorist attacks, shared global interests in countering terrorism have provided an avenue for increased Russian engagement on international security matters. Relations between Russia and NATO have been strengthened and the closer relationship with the United States has produced deep arms reduction commitments by both countries.

The European Union is a growing global power

The European Union's most notable achievements have been in economic integration. The introduction of a common currency was an important step forward, although the European Union will need to reconcile a common monetary policy with differing national economic circumstances. Stronger growth, greater stability and reduced transaction costs will generate new opportunities across all sectors of the economy. Plans to develop single markets in key sectors, such as energy and financial services, should further reduce barriers and costs for Australian companies seeking to do business in the European Union.

But enlargement also has the potential to harm Australian interests. The European Union is largely an open market for Australian exporters, with the important exception of agricultural commodities. Extension to new members of protectionist measures, particularly the Common Agricultural Policy (CAP) assistance programs in their current form, would further distort world agricultural markets and harm Australian and developing country producers. But, encouragingly, some EU members are recognising that the European Union cannot afford current agricultural support arrangements, especially if they are extended to the ten candidate countries, and are pressing for change.

The European Union's economic weight has not yet translated into a comparable foreign and security policy weight. There is a strong and growing desire among the member states to be more effective on the world stage in relation to issues on which they agree. The Balkans conflicts were instrumental in creating an acceptance within the European Union of the need for closer foreign and security policy coordination. While the diverse interests of its members—which include four neutral countries—preclude close coordination across the full spectrum of security issues, the European Union is developing a civil (police, judicial) and military capacity for conflict prevention and crisis management. NATO will remain central to the security interests of the European Union. It is a

The facts about European Union enlargement

The European Union's membership will grow from 15 to 25 countries by 2004. The new members are Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

The enlarged European Union's population would grow by 20 per cent to 452 million and its land mass by 23 per cent to 4 million square kilometres.

The grouping's gross domestic product (GDP in current prices) would increase by 4.4 per cent to US\$8.2 trillion and account for over 26 per cent of world GDP.

Exports, at nearly US\$3 trillion, and imports, at US\$2.9 trillion, would account for nearly 38 per cent of world trade.

DEVELOPING RELATIONS WITH AN ENLARGED AND INCREASINGLY COHESIVE EUROPE

key underpinning of US engagement with Europe. NATO's enlargement to include many central and eastern European countries and closer engagement with Russia are important for European stability and security. And NATO resources will be critical to the development of an EU military capability.

Working to influence the EU agenda—Australia's strategy

The European Union's expansion and integration pose new challenges for Australia's international relations. The European Union's disciplined approach to multilateral negotiations reflects a determination to have its collective weight more clearly acknowledged in international affairs. Two EU members are permanent members of the United Nations Security Council, and the European Union as a bloc is already able to deliver fifteen votes in international forums, often on issues vital to Australian interests. EU authority is expanding into new policy areas, such as justice, immigration, food safety, competition and energy policy. But the cohesion of EU positions will vary from issue to issue and forum to forum.

At the same time, EU decision-making is complex and difficult for others to influence. And the combination of enlargement and deeper integration has created a 'crowding out' effect, whereby third countries like Australia find it increasingly difficult to win the attention of EU decision-makers. Decisions reached after intensive processes of consultation among member states are difficult to reverse.

It is important for Australia to identify at an early stage emerging issues that have the potential to affect us. Differences among EU member countries as they work towards a unitary position are often significant. Influencing the outcomes will require both the lobbying of EU institutions in Brussels and work in EU capitals. The mix and focus of our effort will vary from issue to issue. Much will depend on a sophisticated understanding of European policy dynamics. Regular high-level visits to Brussels and EU capitals, active lobbying by our European diplomatic network and developing coalitions with other non-EU like-minded countries and organisations are at the core of our strategy to influence EU policy.

The European Union has developed a costly and cumbersome regulatory system that affects most aspects of economic activity. Its attempts, at times, to impose this system on the international community to avoid suffering a competitive disadvantage put it at odds with Australia. We are working hard to counter this

➤ EU members and enlargement countries



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agenda. We are forming coalitions with other like-minded countries to provide a counterweight to the European Union. One example is the effort of Australia and others, including Argentina, Canada, Chile, New Zealand and the United States, to resist restrictions being sought by the European Union on the use of many common descriptive food terms, such as parmesan and fetta cheese and kalamata olives.

Europe is an important partner for East Asia. EU countries, collectively, are the East Asian region's second most important trading partner and source of inbound investment after the United States. As the European Union undergoes further profound change, it is important that an understandable focus on its own affairs not detract from the European Union's engagement with our region. The Australian Government is using its regular high-level contact, and the unique and valued perspective we offer, to encourage the European Union to remain productively engaged with East Asia.

CHAPTER 9

ADVANCING OUR WIDER GLOBAL INTERESTS

Australia has important links with all regions of the world.

Security issues in the Middle East matter to Australia

The Middle East is an area of strategic importance whose conflicts and crises engage the rest of the world. Australia, along with our major allies, is therefore engaged in the security issues of the region. Australia has a long history of military involvement in the Middle East—through both world wars, the Gulf War and, most recently, as part of the multinational force in Afghanistan. Australia currently contributes to United Nations and other peace-keeping and observer missions in the region. Australian naval forces are deployed regularly in operations in the Gulf to enforce United Nations Security Council sanctions against Iraq.

The Israeli–Palestinian conflict and its ramifications are felt keenly by concerned communities in Australia. Australia is deeply committed to the security of Israel, while supporting the legitimate aspirations of the Palestinians, including for a Palestinian state. Australia rejects unequivocally the use of terror, including suicide bombings.

The Government is seriously concerned about Iraq’s weapons of mass destruction programs, its record of using such weapons and the threat it poses to regional and global peace and security. Iraq has flouted international norms and legally binding obligations requiring it to eliminate such programs and to prove this to the satisfaction of the international community. It is crucial that the international community take effective action to ensure that Iraq disarms.

The Middle East is a growing and more diverse market for Australian exports

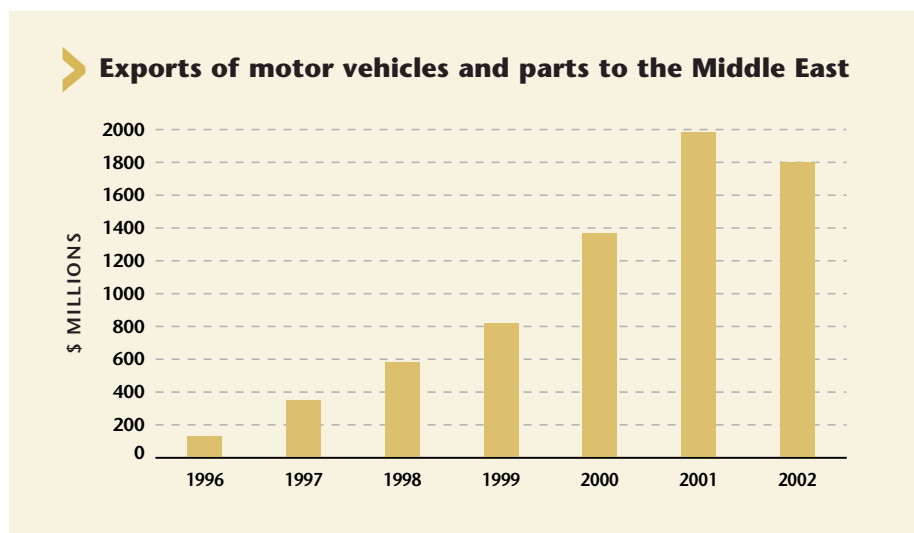
The Middle East's economic significance to Australia is growing. Over the past five years, the Middle East has been our fastest-growing regional market. Australian merchandise exports to the Middle East have more than tripled over the past decade, to reach \$7 billion in 2002. The region's share of our total merchandise exports has increased from 3 per cent in 1992 to 6 per cent in 2002. The countries of the Middle East have traditionally been important markets for key commodity exports—wheat, meat, live animals, dairy products and alumina—and now they are also growing markets for Australian manufacturing.



The success of our automotive exports has been the most striking feature of our Middle East trade. Commencing in 1996, passenger motor vehicle exports have grown to \$1.8 billion in 2002 and now represent 26 per cent of our merchandise exports to the Middle East. This success is largely attributable to effective industry restructuring in Australia that has resulted in our automotive industry becoming a world-class producer of motor vehicles and parts.

The composition of our trade varies across the Middle East. Passenger motor vehicles now constitute more than half of our exports to Saudi Arabia and are a

major export item to Kuwait and the United Arab Emirates. Wheat dominates our exports to Iran, Iraq and Egypt. Both the United Arab Emirates and Bahrain are important destinations for Australian alumina.



The challenge is to diversify our economic links with the Middle East. Education is adding a new dimension to our relationships with many Middle East countries, as it has in many of our Asian relationships. Middle East student numbers in Australian tertiary institutions are low but growing and Australian education providers are establishing a presence in the Middle East. Australians also play an important role in the health, construction and aviation sectors in the Middle East. Australia is also becoming an increasingly significant tourist destination for Middle East countries. The Government has established a Council for Australia–Arab Relations which will further strengthen the growing people-to-people links we have with the Middle East. These links will help raise awareness of Australia as a sophisticated and diverse nation, capable of providing a broad range of goods and services that contribute to the region’s development.

Shared goals are strengthening our Latin American relationships

Australia’s bilateral ties with Latin American countries have developed strongly on the basis of our functional affinities, especially our shared interests in trade liberalisation. Half of all Cairns Group members are Latin American countries which share Australia’s objective of global agricultural trade liberalisation. Latin

American countries are also important partners for Australia on environmental issues in the Valdivia Group, which promotes Southern Hemisphere views in international environment forums, and in disarmament and arms control forums. And the countries of the Caribbean, particularly the members of the Caribbean Community, are valued partners in multilateral forums such as the United Nations and the Commonwealth.

The Government will seek to strengthen further Australia's cooperation with Latin American and Caribbean countries in international forums. This will be particularly important in the context of the World Trade Organization (WTO) round. Latin American participation in the Cairns Group adds significant weight to the Group's efforts to win substantive liberalisation of global agricultural trade through the new WTO round.

Australia's international cooperation with Latin American countries will be strengthened through deeper economic ties. Latin American countries offer Australian exporters and investors sizeable markets supported by advanced levels of education and social development. While current economic instability may limit possibilities in some Latin American countries over the short to medium term, others offer a stable economic and political environment. The Government will work with business to build on existing trade and investment links, notably in the minerals sector with Chile, and to develop emerging opportunities in education, urban infrastructure and environmental technologies and services.

The Government established the Council on Australia–Latin America Relations in 2001 to raise Australia's profile in Latin American countries. The Council will use its program of business visits and promotional activities to foster greater awareness of what Australia and Latin America can offer each other and to enhance our economic, political and social relations.

Canada is a valued partner

Canada is an established partner for Australia. As one of the world's major industrialised nations, Canada is a member of several significant forums that affect Australian national interests. These include the group of the world's seven largest developed economies and Russia, and the group of four leading members of the WTO. Australia and Canada share underlying interests in many areas, particularly trade liberalisation, disarmament and UN reform. The Government will use regular official dialogue with Canada to develop further

our cooperation in international forums. The Government initiated the Canada–Australia Dialogue in 2002 to expand cooperation on a range of public policy issues.

Canada continues to be a valued partner for defence and intelligence exchanges and consular services. Canada’s importance as an export market has also grown in recent years. Our goods and services exports were worth about \$2.3 billion in 2001. Australian firms have invested some \$3 billion in Canada’s mining and transport sectors. The Government will continue to work with Australian exporters to identify new opportunities in Canada.

Australia’s focused interests in Africa

Australia’s interests in Africa are engaged most directly through our relationship with South Africa and our membership of the Commonwealth. We have a substantial two-way trade and investment relationship with South Africa and a large South African community in Australia. South Africa is an important member of the Cairns Group and the World Wine Trade Group.

As a key member of the Commonwealth we work to improve governance and democratic institutions, as agreed by Commonwealth countries in the 1991 Harare Declaration and implemented through the 1995 Milbrook plan of action, particularly in African member states. Australia has contributed to UN and other peace-keeping missions in Africa, for example in Somalia, Rwanda, Ethiopia–Eritrea and Sierra Leone.

As Chair-in-Office of the Commonwealth, Australia has taken a leading role in the Commonwealth’s response to the situation in Zimbabwe. The Government is deeply concerned about the tragic situation unfolding in Zimbabwe. President Mugabe has continually failed to respond to the international community’s profound concern about human rights abuses and subversion of democracy and the rule of law. Through the imposition of smart sanctions, the Government is sending a strong message of disapproval to President Mugabe’s regime and encouraging it to return to the Commonwealth’s fundamental values—democracy and good governance.

Africa faces enormous development challenges. Through its aid program, Australia is playing its part in assisting African nations. The aid program’s primary emphasis is on governance, reflecting the central focus of the African Union’s

New Partnership for Africa's Development. Australia also works with governments and communities in southern and eastern Africa to enhance food security, strengthen education and reduce the impact of HIV/AIDS. Global trade liberalisation, particularly in agriculture, will make an important contribution to African development.

Australia is also a strong supporter of the IMF/World Bank Heavily Indebted Poor Countries initiative as the most credible way to provide sustainable debt relief, especially in Africa. The Government has committed \$77 million to assist the World Bank and IMF to provide debt relief and provided bilateral debt relief of \$11.5 million for Ethiopia.



PROJECTING AUSTRALIA AND ITS VALUES

CHAPTER TEN:

PROMOTING GOOD
GOVERNANCE, HUMAN
RIGHTS AND DEVELOPMENT

CHAPTER ELEVEN:

PROTECTING AUSTRALIANS
ABROAD

CHAPTER TWELVE:

PROJECTING A
CONFIDENT AUSTRALIA



CHAPTER 10

PROMOTING GOOD GOVERNANCE, HUMAN RIGHTS AND DEVELOPMENT

Australia's foreign and trade policies advance the national interest by persuading and helping other countries to implement high standards of governance. Good governance in other countries helps build a more secure and prosperous international environment for Australia. We depend on others having, for example, the capacity to formulate, implement and sustain policies that detect and disrupt terrorists, liberalise trade and investment, protect the environment in ways that do not distort trade, and respect human rights. None of these is easily possible without good governance.

Australia is helping others strengthen their governance

Good governance—sound policies, mature institutions and accountable systems—is a basic condition for stability and prosperity in all countries. Open, accountable and transparent institutions and sustainable policies help deliver security, respect for human rights and economic development. In an increasingly globalised world economy, those nations able to sustain high standards of governance will succeed, while others will struggle.

Important Australian interests are affected by the weakness of governance in parts of our immediate region. Poor corporate governance, particularly in financial and prudential areas, was a factor behind the East Asian financial crisis. Weak institutions and legal systems have exacerbated the problems of Solomon Islands and other Pacific island states. Continued weak governance among some regional countries impedes these nations from dealing forcefully with transnational threats, including terrorism.

Australia's standards of governance are among the highest in the world. Our wide-ranging and continuing economic reforms, the quality of our institutions

and our political stability mean that we are well placed to make a distinctive contribution to other countries' efforts to improve their governance standards. It is in our interest to do so, and it is a contribution that the Australian community expects the Government to make.

Australia is at the forefront of donors addressing governance issues and a strong advocate of good governance in the region. Governance is the largest sectoral element of Australia's aid program. The Government's spending on governance programs in the Asia-Pacific region has more than doubled since 1998 to \$355 million in 2002–03. Since 1999, at least 17 000 senior and middle-level officials have been trained by Australia in different aspects of governance, from banking supervision to election planning. The Government will continue to support strongly the development of high standards of governance in our region.

Improving the commitment of others to human rights

The protection of human rights is a crucial aspect of good governance. Australia's efforts to improve the protection of human rights abroad are practical and distinctive. The Government advances human rights principally through focused bilateral efforts that promote international human rights standards. Australia gives practical and realistic help to other countries to meet those standards.

Australia holds regular senior-level discussions with China on human rights issues and has provided significant technical assistance. We have established similar human rights dialogues with Vietnam and Iran. We have conducted workshops for Burmese officials in international law and human rights treaties. We have assisted the establishment and development of the Indonesian National Commission for Human Rights.

We have been instrumental in establishing and funding the Asia-Pacific Forum for National Human Rights Institutions. The Government has established and funded the Centre for Democratic Institutions in Australia to assist human rights-related bodies in the region, such as parliaments and judiciaries, to function more effectively.

Engaging with regimes that offend some of the values of the Australian community can, if focused on practical outcomes, give us some hope of improving respect for human rights.

Australia is also trying to improve multilateral action on human rights issues. Our efforts to reform the human rights treaty body machinery aim to strengthen in a practical way the United Nations' ability to contribute to improving human rights standards around the world—an initiative that complements the practical approach we bring to our bilateral human rights diplomacy. There is strong momentum behind this initiative, which we will carry forward during our membership of the UN Commission on Human Rights from 2003 to 2005, and particularly our Vice-Chairmanship in 2003.

The framework of international cooperation must evolve in response to the needs of the international community. One important missing element has been a standing tribunal to investigate and prosecute the worst crimes of international concern, such as genocide, crimes against humanity and war crimes. The need for such a body has been shown by the establishment in recent years of ad hoc tribunals to investigate crimes committed in the former Yugoslavia and Rwanda. The establishment and effective functioning of the International Criminal Court will help deter such crimes and be an incentive to governments themselves to investigate and prosecute their perpetrators. As such, it is an important development in the maintenance of international peace and security.

Australian aid is investing in growth, stability and prosperity

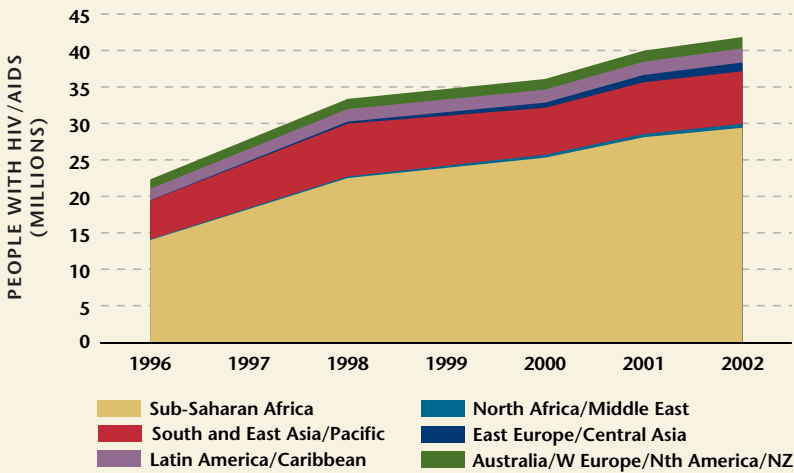
Australia's overseas development assistance program is an integral part of Australia's links with the world. Our aid programs, like our other links, are affected by the changing international environment. The effects of the East Asian financial crisis (particularly on Indonesia), China's growth and its accession to the World Trade Organization, Papua New Guinea's challenging outlook, the fragility of some of the Pacific island states, transnational threats such as people smuggling and communicable diseases, and the role of globalisation in making enormous gains in the reduction of global poverty—all these help determine how Australia's overseas aid is allocated.

The single objective for Australia's aid program is, however, the same: to advance our national interests by assisting developing countries to reduce poverty and achieve sustainable development. Greater economic growth and improved stability in Australia's region will contribute to the security and prosperity of Australians. At the same time, the Government recognises the moral obligation for a wealthy country like Australia to help reduce poverty.

➤ **A helping hand in the fight against HIV/AIDS**

HIV/AIDS is a global challenge, but its effects are particularly acute in the developing countries of sub-Saharan Africa and the Asia-Pacific. Some 7.2 million people were infected with HIV/AIDS in the Asia-Pacific in 2002, an increase of 10 per cent since 2001. The spread of HIV/AIDS threatens the social and economic stability of developing countries.

➤ **HIV/AIDS prevalence greatest in sub-Saharan Africa and Asia**



Source: UNAIDS.

Australia launched a six-year, \$200 million global HIV/AIDS prevention initiative in 2000. Under this initiative Australia is funding prevention, treatment and care measures, particularly in South-East Asia. Australia continues to support the Asia-Pacific Leadership Forum, which promotes HIV/AIDS awareness among key decision makers in the region. Australia is willing to assist regional countries with trial treatment programs, including use of antiretroviral drugs, where such measures are appropriate and can be sustained.

An international consensus has developed on the foundations for the long-term reduction of poverty. Strong economic growth reduces poverty. The quality of that growth is important. There must be investment in human capital and in creating an environment that encourages the private sector to create jobs. Outward-looking states have achieved higher rates of growth. And, crucially, good governance is a pre-requisite for sustained growth and the reduction of poverty.

In response to this consensus, Australia's aid is guided by five key themes. It will promote improved governance. It will assist developing countries to benefit from trade and information technologies. It will support stability by helping to improve the delivery of basic services. It will strengthen regional security by improving the ability of governments to prevent conflict, build stability and manage transnational challenges. It will promote sustainable environmental and resource management.

In 2002–03, Australia will provide \$1.8 billion in official development assistance. Australia's aid will continue to be concentrated on the Asia-Pacific region, where the majority of the world's poor live, where we are well placed to assist, and where our national interests are best served.

CHAPTER 11

PROTECTING AUSTRALIANS ABROAD

A large part of Australia's growing integration into the global economy has been the increasing presence of Australians overseas. There are more than one million Australians travelling, working and living overseas at any one time. Australians make a total of more than three million overseas journeys each year. The number of overseas visits made by Australian businesspeople has almost doubled over the past ten years to reach more than half a million. Over 40 000 Australians leave each year to live, work or study abroad. The welfare of Australians abroad will remain of the highest priority for the Government.

A helping hand for Australians abroad

The large number of Australians overseas means that the requirement for consular assistance will inevitably grow, particularly with the threat of terrorist attacks worldwide. For an increasing but relatively small number of Australians, their travel leads them into difficulty. The Department of Foreign Affairs and Trade helps these Australians—and their families in Australia—in a wide range of difficult circumstances. In 2001–02, the department assisted more than 24 000 Australians overseas. In many cases, consular assistance was provided over an extended period.

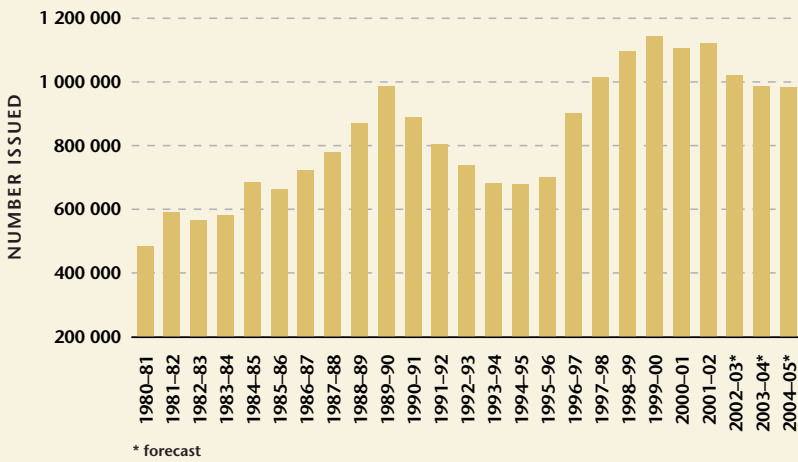
The Government assists Australians caught up in civil disorder and unrest overseas. In the past decade Australian governments have facilitated the mass evacuations of Australians and other nationals from crises in Cambodia, Indonesia and Solomon Islands. The Government helped 758 Australians and other nationalities leave Indonesia during civil strife in 1998. In 2000, the Government helped evacuate 1066 Australians and other nationalities from Solomon Islands on defence and civilian aircraft and vessels.

Consular services also assist routinely Australians abroad who suffer serious illness or are the victims of an accident or crime. The Government provides support to

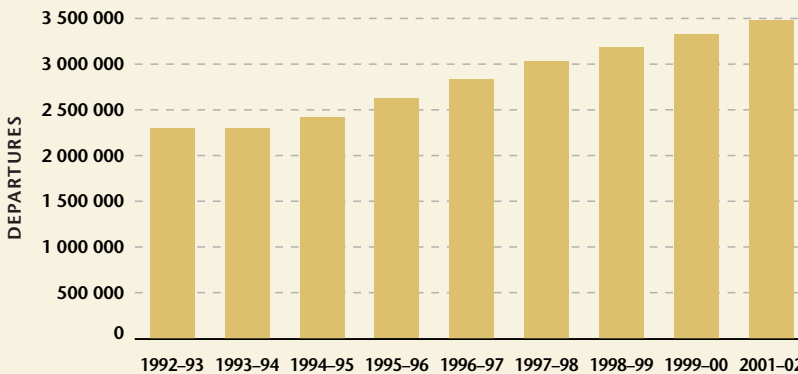
the families of Australians who have died overseas. Most consular cases involve one or a few individuals at most. But some, such as the Swiss canyoning tragedy in 1999, in which 14 young Australians lost their lives, are more complex and require more resources.

➤ **More Australian travellers require consular assistance**

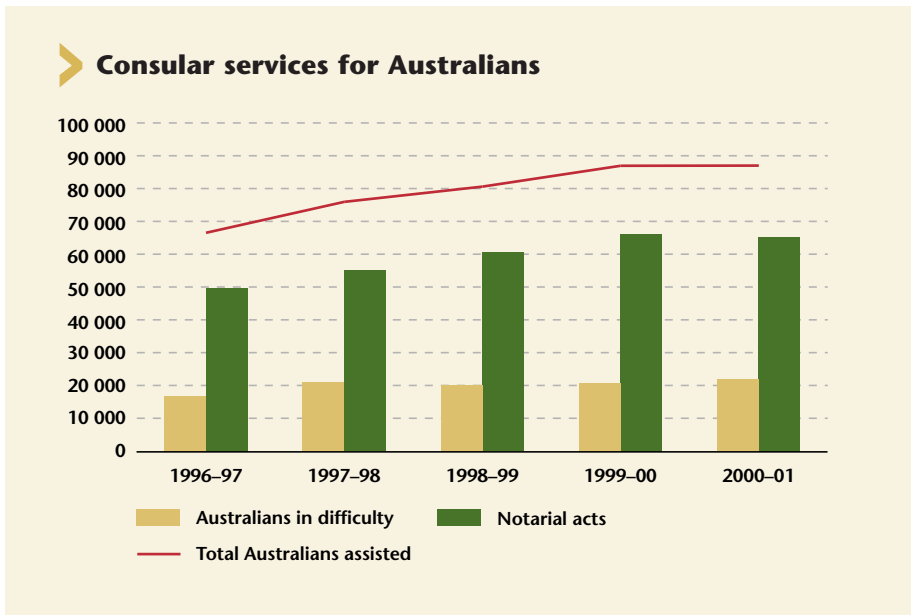
➤ **Demand for passports remains high...**



➤ **...as Australians travel overseas more***



*Note: Data for 2000-01 not available.



There are circumstances in which Australians are the victims of injustice or may be imprisoned unfairly. The Government has demonstrated that, where an Australian is clearly imprisoned unfairly, it is prepared to make strong diplomatic representations to achieve that person’s release. Where there is no question of unfairness or injustice, consular officers will help Australians secure legal representation and work to ensure that due legal process is observed. Australia also has prisoner exchange agreements with Thailand and the Council of Europe (covering 51 countries) to enable Australians to serve out their sentences in Australia, closer to their families.

Notarial functions are an important service provided to Australians wishing to engage in activities, such as trade or studies, overseas. In 2001–02, almost 75 000 notarial acts were performed by overseas posts and DFAT’s State and Territory Offices, an 11 per cent increase over the previous year.

The Bali attacks tested the limits of our consular system

The September 11 and Bali terrorist attacks demonstrated the challenge that the global threat of terrorism poses for Australia’s consular system. The scale of these attacks and the large numbers of Australians involved, directly or indirectly,

placed great demands on consular services. Following September 11, for example, consular services fielded 15 000 phone calls from relatives and friends of the ten Australian victims and other Australians in the United States.

The Bali terrorist attacks were unprecedented in Australia's history. The attacks claimed 88 Australian lives, making it the single largest peacetime loss of Australian life overseas. The Government's response to the attacks was immediate and comprehensive. Within four hours of the attack it established a crisis centre in the Department of Foreign Affairs and Trade. The crisis centre coordinated emergency responses including the deployment of defence assets to transport the critically injured to Australia and deliver medical services and supplies to Bali. The crisis centre activated an emergency call unit which, over the ensuing days, responded to more than 30 000 calls from concerned Australian families.

The Government's consular services responded professionally, compassionately and effectively to the Bali attacks. Nevertheless, the scale of the crisis presented new challenges from which the Government has learnt valuable lessons.

Enhancing consular and passport services

Even before the Bali attacks the Government was taking steps to enhance consular services to the growing number of Australian travellers. The Department of Foreign Affairs and Trade established a 24-hour consular emergency centre in Canberra in 1997. This centre is now supported by a new information technology system that enables real-time communication with Australians receiving consular assistance, their families and consular officers stationed in our diplomatic missions overseas. In 2001–02 the centre handled more than 104 000 telephone enquiries—an average of more than 280 a day.

The Government has broadened the reach of its assistance to Australians through consular cooperation arrangements with Canada, New Zealand, the United Kingdom and the United States. These arrangements exploit a functional affinity that flows from our different geographical focus, reflected in our diplomatic and consular representation being greatest in different parts of the world. Cooperation is strongest with Canada, with which we have a formal agreement covering mutual assistance in some forty countries.

Travel advisories will remain important for informing Australian travellers of potential risks overseas. The advisories draw on a range of information sources,

including intelligence, and are kept under regular review. They are available from the offices of the Department of Foreign Affairs and Trade, its web page, a faxback facility and Australian diplomatic missions overseas. Travellers may also register with the department through an online registration system. Following the Bali attacks the Government launched a new program of activity to promote awareness of the travel advisory service. In particular, it is working with the travel industry to promote better awareness and dissemination of the advisories and make more improvements to the travel advisory system.

In the wake of the Bali attacks, the Government has also strengthened its liaison and coordination with domestic emergency authorities.

Australia maintains a world-class passport system, with a particular emphasis on high-quality documentation. As the demand for passports has grown, the Government has sought to improve the efficiency of its passport operations. For example, it is considering the use of online applications to speed up the issue of passports. The Government is also seeking to enhance the security of Australian passports. One possibility is the inclusion of biometric data in travel documents. Such measures aim to reduce the risk of forgery and the possibility that lost or stolen Australian passports will be misused.

Even with these improvements to consular and passport services, there are legal limits to what the Government can do for Australians overseas. Consular functions are governed by international agreements. Assistance cannot override local laws, even where these appear harsh or unjust by Australian standards. In some countries we are unable to help Australian citizens who concurrently hold citizenship of that country (that is, who hold dual nationality).

The Government's ability to assist Australian travellers also depends on the quality of foreign organisations and persons, such as police and judicial agencies, and their willingness to cooperate. Our capacity to help Australians may also be stretched where they are in remote locations or areas where infrastructure, such as medical services, is poor.

CHAPTER 12

PROJECTING A CONFIDENT AUSTRALIA

Advancing the security and prosperity of Australians involves government, business and the Australian community at large. With globalisation, more Australians in more capacities, at home and overseas, are involved in Australia's interaction with the world. State and territory governments and a wider range of federal government agencies find increasingly that their work affects and is affected by the pursuit of our interests overseas.

The distinction between international and domestic issues is blurred

Australia's deepening integration into the global economy has blurred the distinction—never a clear-cut one—between domestic and international issues. The state of the world economy directly affects Australians, in prices achieved for our exports of goods and services, interest rate and currency movements or new market opportunities. Judgments on the Australian economy made overseas can have swift and tangible results.

Changes in the international security environment, too, have added to the blurring between domestic and international issues. The faster and freer movement of people and goods has increased the vulnerability of Australia and other countries to non-traditional security threats, including terrorism, organised crime, environmental degradation and disease.

In Australia, as in other countries, international issues can be localised quickly. The media, non-government organisations and international organisations all provide avenues by which individuals and organisations can take their issues of concern more easily to Australians. The Internet enables the rapid flow of ideas and information in all directions, particularly for a country with Australia's heavy use of information technology. Seven million Australians, almost 37 per cent of the population, accessed the Internet in the week before the 2001 population census.

Individuals and organisations in Australia can use the same channels to take issues of concern to them beyond Australia to international audiences. The Government listens to such audiences, but its first duty will always be to conduct policy in the interests of and by the laws and conventions of Australia.

Effective consultation assists effective international policies

The close relationship between international and domestic policies means that wide-ranging consultation within Australia is an important element of our efforts to advance the national interest overseas. Such consultation takes place between Commonwealth agencies, between different levels of government and between governments and the community.

At the federal level, a whole-of-government approach is crucial. The Government has improved the mechanisms that deliver this. The establishment of the National Security Committee of Cabinet in 1996 meant that all important international security issues would be considered by ministers with key international and domestic responsibilities. The Sustainable Development Committee of Cabinet allows for comprehensive consideration of the intertwined international and domestic aspects of climate change and other environmental issues. The International Economic Policy Group of senior officials helps coordinate the Government's response to global economic developments.

In Australia's federal system of government, state and territory governments are an important part of our relations with the world. Many of the international obligations we assume are in areas of state and territory competence, such as the environment and sustainable development. Similarly, state and territory policies on, for example, export promotion, industry development or aspects of social welfare, can impinge on Australia's international obligations or relations with other countries. Consultation between the federal and state and territory governments is well developed through the Council of Australian Governments and other bodies such as Commonwealth–state ministerial councils. The states and territories, too, have particular interests in countries and regions linked to them by geography, trade or people-to-people links.

Department of Foreign Affairs and Trade (DFAT) and Austrade offices are active in all state and territory capitals. Those offices help build strong links with state and territory governments and with the business and wider community in metropolitan, regional and rural areas.

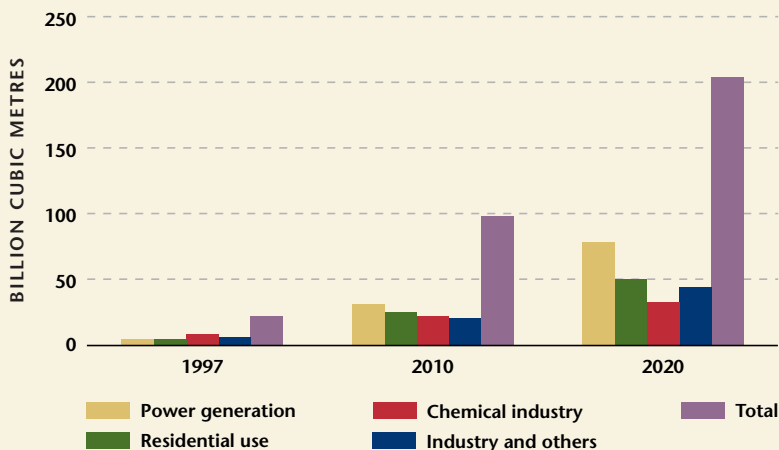
➤ Australia's China LNG success: a team effort

Australia's success in winning the contract to supply liquefied natural gas (LNG) to China's first LNG project showed how government–business cooperation can advance the national interest. In the mid-1990s the Government alerted Australian business to emerging opportunities in China's energy market which offered scope for a strategic energy partnership with China on a par with that between Australia and Japan.

The Commonwealth and West Australian Governments and key businesses began by identifying stakeholders in China's LNG sector, conveying to them a coordinated message of Australia's strengths as an LNG supplier and the mutual benefits of a strategic energy partnership. The Prime Minister, the Minister for Trade, the Minister for Foreign Affairs, the Minister for Industry, Tourism and Resources and other ministers kept Australia's bid in front of China's leadership. Coordinated efforts between the Commonwealth and state governments, diplomats and representatives of the North West Shelf and Australia LNG ensured senior Chinese officials and businesses recognised the bid's strengths.

These combined efforts resulted in Australia's largest ever single trade deal, yielding up to \$25 billion in exports over 25 years and boosting employment and investment in Australia, particularly in regional North-West Australia.

➤ China's projected demand for LNG offers further export opportunities



Source: *China: Energy policy and Natural Gas Use*, Murdoch University 2001.

Cooperation between federal and state governments on trade policy is crucial for advancing Australia's national interest. Cooperation will be all the more important as international trade negotiations move increasingly beyond issues of federal competence, such as tariffs, into areas of state competence, such as the regulation of professional services. The Government's National Trade Consultations provide for regular meetings of state, territory and federal ministers responsible for trade and for consultations between senior officials and peak industry associations.

The Government consults widely with interested groups through standing bodies and informal means. The Foreign Affairs Council, comprising distinguished individuals working in business, the media and academia, gives the Minister for Foreign Affairs independent advice on a broad range of foreign policy issues. The Minister for Trade receives independent advice from his World Trade Organization (WTO) Advisory Group, comprising business and academic representatives, on Australia's multilateral trade strategy. The Trade Policy Advisory Committee gives the business community an opportunity to contribute strategically to the Government's position in trade policy negotiations. DFAT holds formal consultations twice a year with non-government organisations interested in human rights issues. The National Consultative Committee on Peace and Disarmament considers a range of international security issues.

Building public understanding and support for Australia's foreign and trade policies

Broad community understanding of Australia's global environment and support for the policies the Government pursues to advance our national interests is important. The objective of our foreign and trade policies is to advance Australia's security and prosperity and, as such, all Australians have a stake in them.

The Government will continue to explain to Australians the importance for our prosperity of Australia's integration with the global economy through trade and investment. The jobs of one in five Australians depend on exports and, in general, export-related jobs pay better than others. Over half a million Australians work in firms with majority foreign ownership, and foreign investment accounts for around one-fifth of Australia's total annual investment. Economic reform, including trade liberalisation, has raised the living standard of

most Australians and created new and better jobs. It has made the nation better able to assist those who have had difficulty adjusting to the challenges of globalisation.

It is important, too, that Australians understand the nature of our fluid and uncertain international security environment and its implications for our policies. The Government conducted extensive public consultations on defence issues in 2000, to hear community views and to build support for the policies and increased funding eventually set out in the 2000 Defence White Paper. Increased spending in the 2002–03 Budget on security also enjoys strong community support, which accepts that the threat from terrorism requires difficult and expensive measures to safeguard the security of Australians. The Government also supports the goal of broadening and deepening the understanding of international affairs through initiatives such as the establishment of an Asia-Pacific College of Diplomacy at the Australian National University.

The role played by the parliamentary Joint Standing Committee on Treaties (JSCOT) demonstrates the Government's commitment to transparency and public consultation on Australia's accession to international agreements and treaties. The Government refers all proposed treaty ratifications and modifications to JSCOT for consideration. JSCOT is able to invite submissions from the public on any of them. Its recommendations, based partly on the views expressed in such submissions, can influence the Government's position on international treaties and the domestic legislation by which they are implemented.

An image of Australia as a sophisticated, successful and influential nation

We are respected internationally for our successful economy, the strength of our institutions and our commitment to democratic values. Australians have built a prosperous, tolerant and multicultural society that encourages innovation and excellence across a range of endeavours, including business, information technology, scientific research, culture and the arts.

Our economic underpinnings are strong and dynamic. We have responded well to the challenges of deeper integration into the global economy, including by successful management of the economy during the East Asian financial crisis.

Our security capabilities are sound as we showed by our contribution to East Timor's transition to independence and our participation in the war against terrorism. Our diplomacy has been effective as we showed by our major role in the launch of the new round of multilateral trade negotiations and leadership of the Cairns Group.

We have a proud humanitarian record. Since 1945, 590 000 people have come to Australia under our refugee and humanitarian program. We are one of only nine countries in the world with a dedicated offshore humanitarian resettlement program each year and, of the nine, we are the second most generous on a per capita basis.

We are well educated—the proportion of Australians in the workforce with a tertiary qualification is above the mean for developed countries. We have contributed to development and innovation in medicine, transport, natural resources and biotechnology. Australians have won six Nobel prizes. And we showed by the successful holding of the Olympic Games in Sydney in 2000 that we are a creative and a skilful society.

Few countries of Australia's size can point to such a record of contemporary accomplishment. This provides a sound basis for the Government's efforts to project positive and persuasive messages to international audiences about Australian achievements and values.

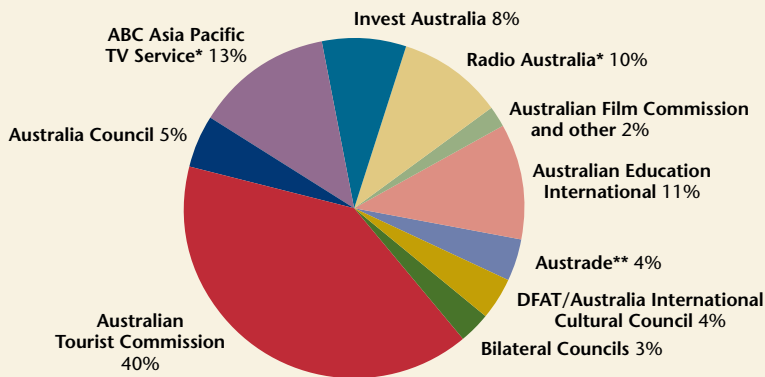
The Government extends the world's knowledge of Australia. It makes possible the broadcast of independent and high-quality radio and television programs to the Asia-Pacific region through Radio Australia and ABC Asia Pacific. The bilateral councils, foundations and institutes established to promote people-to-people links with some of the countries of particular importance to us—among them, Japan, China, Indonesia, Korea, India and France—have deepened the knowledge of Australia's capabilities and assets in a wide range of fields.

The Government strongly believes in the value of promoting Australia's artistic and cultural achievements to international audiences to showcase the talents of our vibrant and diverse society. Aside from its intrinsic value, the promotion of Australian art and culture is a practical policy to advance our national interests by fostering respect for Australia and its accomplishments. The target audiences are those who might affect our interests, such as key government and business

decision-makers and those who might want to visit Australia or study here. To do this, the Government will work closely with the many groups who share an interest in conveying an accurate image of Australia abroad, including state and territory governments, industry bodies, cultural, tourist and educational institutions and non-government organisations. The Australia International Cultural Council brings together leaders from government, the arts and cultural community and business to consult on the more effective international promotion of Australian arts and culture.

➤ Promoting awareness of Australia overseas

The Australian Government spent a total of \$138 million in 2001–02.



Note: The figures for Austrade, DFAT, bilateral councils, Australian Tourist Commission and the Australia Council are program costs only—they do not include staff or administrative costs.

* When referring to these services' overseas promotional role it is essential to bear in mind their editorial and administrative independence from government.

** This figure is an estimate only, due to difficulties in clearly separating Austrade's generic overseas promotion of Australia from its other export promotion functions.

A confident Australia in a fluid and uncertain world

As a nation, we are interacting more and more with the world, at the level of government, business, non-government organisations and individuals. The international environment is a challenging and testing one. Serious threats to Australia's and the world's security require sustained attention and deft

diplomacy. Global economic integration is changing the world and brings opportunities for our increased prosperity. We can be confident that, as a nation, we have strong assets to advance our interests in this testing international environment—a strongly performing economy, good defence and diplomatic capabilities and a distinctive and positive image in the world.



APPENDICES

APPENDIX ONE:

AUSTRALIA MEASURES UP

APPENDIX TWO:

DOING BUSINESS WITH
THE WORLD

APPENDIX THREE:

AUSTRALIA'S GLOBAL
DIPLOMACY

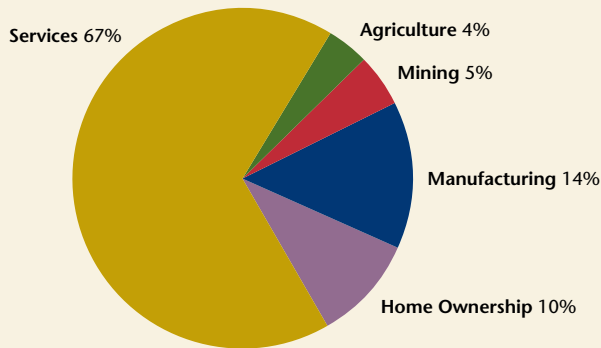


APPENDIX 1

AUSTRALIA MEASURES UP

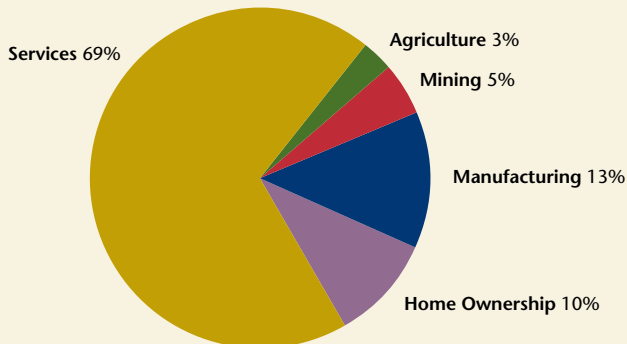
The Australian economy, like most developed economies, is characterised by a large services sector.

➤ Australian GDP by sector 1991–92



Source: ABS cat. 5206.

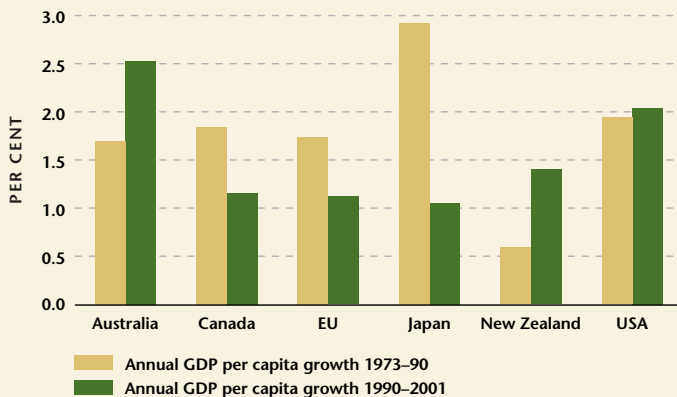
➤ Australian GDP by sector 2001–02



Source: ABS cat. 5206.

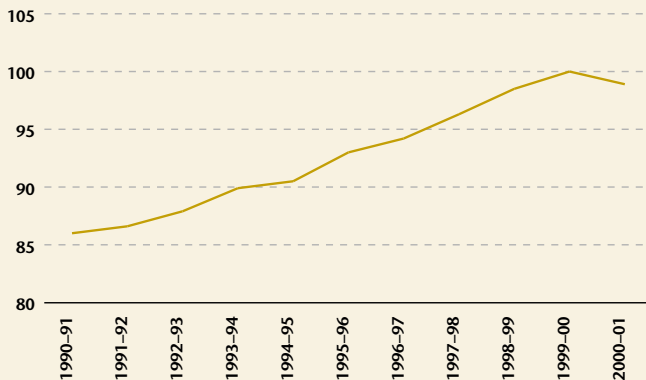
Australia's gross domestic product has been one of the fastest growing among developed economies over the past decade. Productivity growth was the second highest among developed economies.

➤ GDP per capita growth



Source: Productivity Commission.

➤ Australian multifactor* productivity 1991-2001
(1999-2000 = 100)



* Multifactor productivity measures the gross domestic product per combined unit of labour and capital.

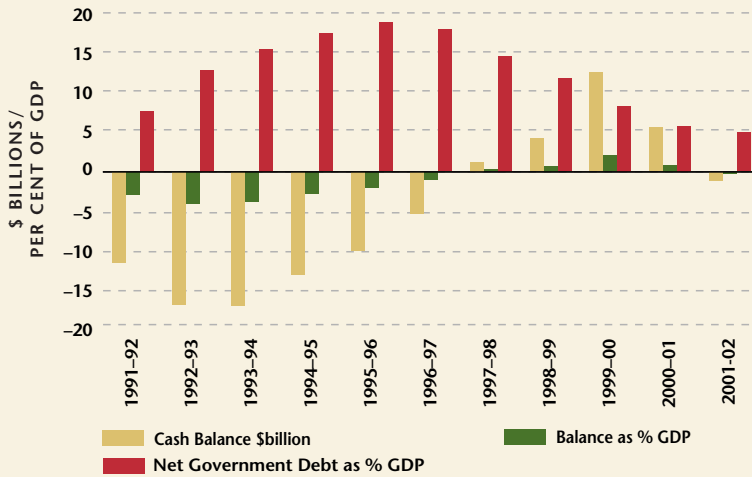
Source: Productivity Commission.

The developed countries with the best productivity performances in the 1990s were, in order, Finland, Australia, Ireland, Canada, Sweden, Denmark, Norway, the United States, New Zealand and Belgium.

Source: Productivity Commission.

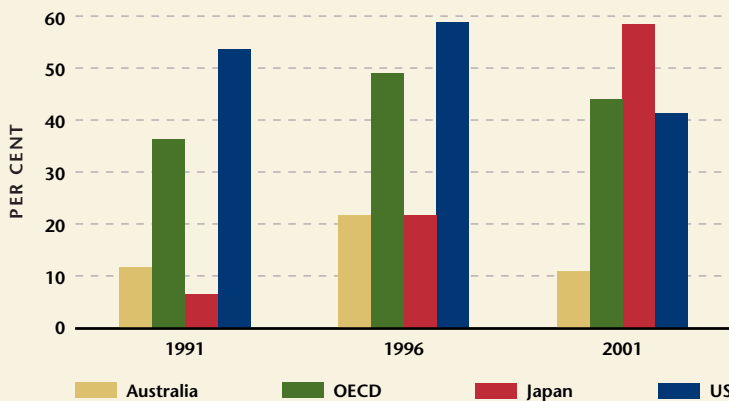
As a result of prudent financial management, the Government has reduced the burden of Federal Government debt. Australia's national government debt is now one of the lowest among developed countries.

Budget balance and net debt



Source: Treasury.

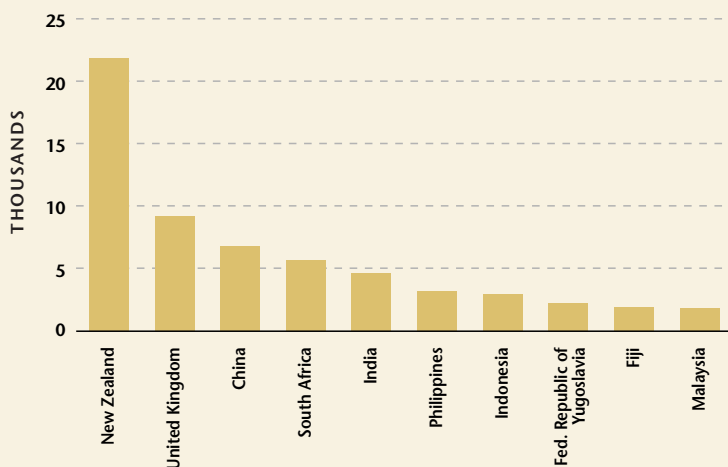
Net government debt as a percentage of GDP



Source: OECD. Note that the OECD Net Government Debt measure includes the state and local government sector and universities.

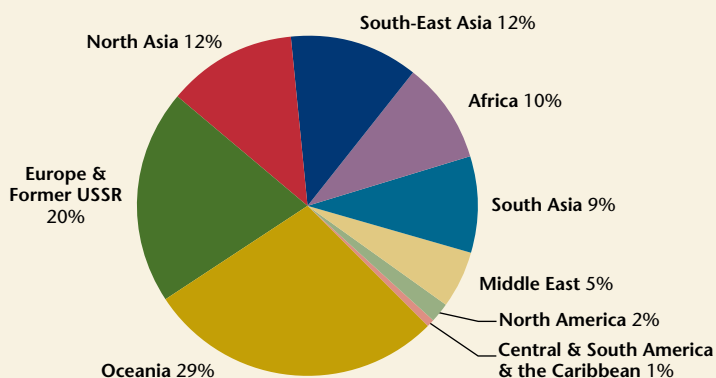
The sources of migration to Australia are diverse. Including migrants, the number of people entering and leaving Australia in 1999 was an increase of almost 250 per cent over the number in 1980.

➤ **Migrants to Australia by major source country 1999–2000**



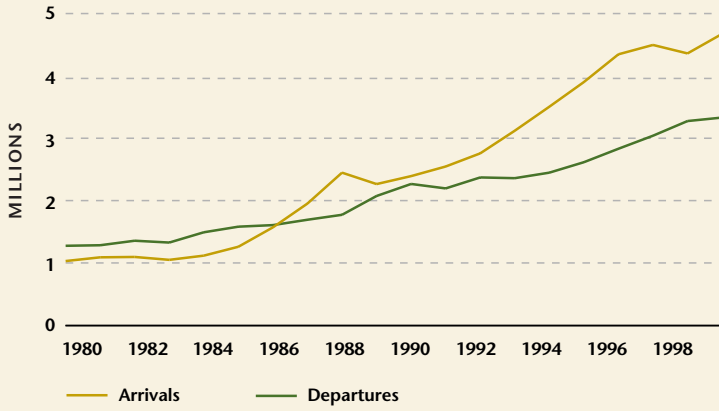
Source: DIMIA.

➤ **Migration to Australia 1999–2000**



Source: DIMIA.

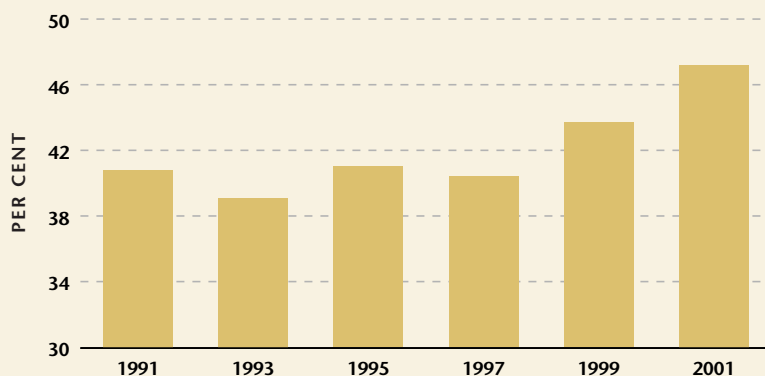
➤ **Total arrivals of overseas persons and departures of residents 1980–99 (millions—includes short and long stays and permanent arrivals and departures)**



Source: DIMIA.

Australia is highly skilled, with almost half the working population holding a university degree, diploma or trade qualification.

Percentage of Australian population age 15–64 with a post-secondary school qualification 1991–2001



Source: ABS cat. 6227.

A highly educated workforce and well regulated business environment contribute to Australia's high standing in world e-commerce rankings.

➤ E-commerce business environment

E-readiness* ranking	Country	E-readiness* score (out of 10)
1	United States	8.41
2	Netherlands	8.40
3	United Kingdom	8.38
4 (tie)	Switzerland	8.32
4 (tie)	Sweden	8.32
6	Australia	8.30
7	Denmark	8.29
8	Germany	8.25
9	Canada	8.23
10	Finland	8.18
11 (tie)	Singapore	8.17
11 (tie)	Norway	8.17
13	Hong Kong	8.13
14	Austria	8.10
15	Ireland	8.02
16	Belgium	7.77
17	France	7.70
18	New Zealand	7.67
19	Italy	7.32
20	Taiwan	7.26
21	South Korea	7.11
22	Spain	7.07
23	Greece	7.03
24	Portugal	7.02
25	Japan	6.86

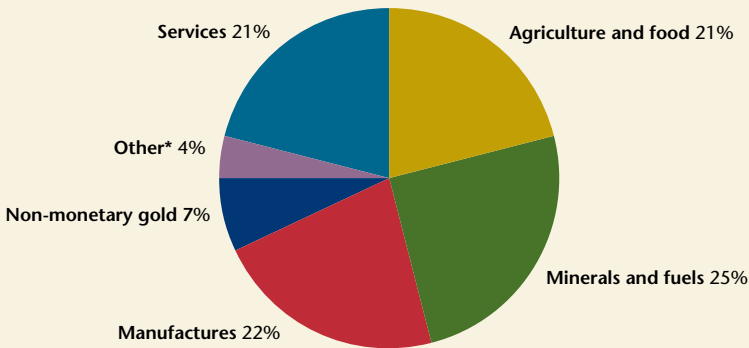
* The Economist Intelligence Unit provides an 'e-readiness' ranking as shorthand for the extent to which a country's business environment is conducive to Internet-based commercial opportunities. It is designed for executives keen on using the Internet to expand into new markets. The EIU's 'e-readiness' model weights six categories in determining rankings: connectivity, business environment, e-commerce consumer and business adoption, legal and regulatory environment, supporting e-services and social and cultural infrastructure.

APPENDIX 2

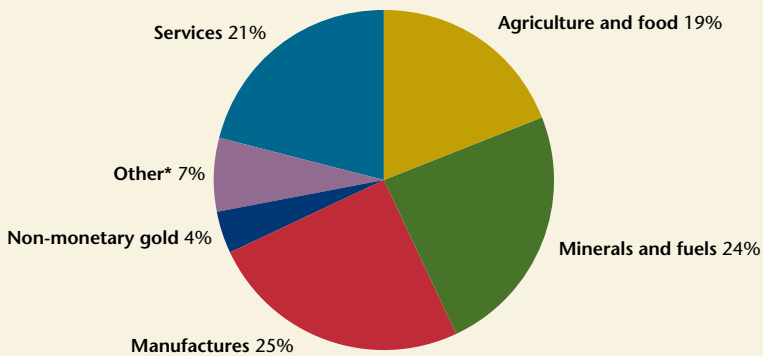
DOING BUSINESS WITH THE WORLD

Australia has a diversified export base. The trend towards an increasing share of manufactured exports has continued over the past ten years.

➤ Composition of Australian exports 1992



➤ Composition of Australian exports 2002



* Includes confidential items, goods for processing, repairs on goods, and goods procured in ports.

Source: ABS cat. 5302.

Over the past ten years, the composition of Australia's top ten single trading partners is largely unchanged, with Indonesia replacing Taiwan. The main change is that China moved from tenth to third place.

➤ **Australia's top 10 trading partners 1991–92 (\$ million)**

	Merchandise	Services	Total	Rank	Share
JAPAN	23 865	4 068	27 933	1	20.2%
(European Union)	18 832	8 181	27 013		19.5%
UNITED STATES	16 963	5 633	22 596	2	16.3%
UNITED KINGDOM	5 032	4 774	9 806	3	7.1%
NEW ZEALAND	5 230	2 004	7 234	4	5.2%
SINGAPORE	4 490	1 377	5 867	5	4.2%
GERMANY	4 099	1 015	5 114	6	3.7%
REPUBLIC OF KOREA	4 578	338	4 916	7	3.6%
TAIWAN	4 497	379	4 876	8	3.5%
HONG KONG	2 898	1 398	4 296	9	3.1%
CHINA	3 434	344	3 778	10	2.7%
TOTAL TOP 10 (ex EU)	75 085	21 330	96 415		69.6%
TOTAL ALL COUNTRIES	106 011	32 453	138 464		100%

➤ **Australia's top 10 trading partners 2001–02 (\$ million)**

	Merchandise	Services	Total	Rank	Share
(European Union)	41 605	12 830	54 435		17.9%
UNITED STATES	33 505	11 134	44 639	1	14.7%
JAPAN	38 284	5 124	43 408	2	14.3%
CHINA	19 087	1 310	20 397	3	6.7%
UNITED KINGDOM	11 417	6 198	17 615	4	5.8%
NEW ZEALAND	12 401	3 781	16 182	5	5.3%
REPUBLIC OF KOREA	14 544	1 086	15 630	6	5.1%
SINGAPORE	8 910	4 385	13 295	7	4.4%
GERMANY	8 073	2 106	10 179	8	3.3%
HONG KONG	5 408	3 399	8 807	9	2.9%
INDONESIA	7 203	1 589	8 792	10	2.9%
TOTAL TOP 10 (ex EU)	158 832	40 112	198 944		65.4%
TOTAL ALL COUNTRIES	240 797	63 239	304 036		100%

Note: The EU is not ranked, as it is not a country, but is included in the table for comparative purposes.

Source: ABS Trade data on DFAT STARS data base—ABS Regional services data 2001–02.

Australia's top ten merchandise export markets are the same as they were a decade ago, with China moving from ninth to fourth.

➤ **Australia's top 10 merchandise export markets 1992
(\$ million)**

	Merchandise	Rank	Share
JAPAN	14 749	1	25.3%
<i>(European Union)</i>	7 711		13.2%
UNITED STATES	5 134	2	8.8%
SINGAPORE	3 769	3	6.5%
REPUBLIC OF KOREA	3 660	4	6.3%
NEW ZEALAND	3 107	5	5.3%
TAIWAN	2 562	6	4.4%
HONG KONG	2 354	7	4.0%
UNITED KINGDOM	2 277	8	3.9%
CHINA	1 875	9	3.2%
INDONESIA	1 723	10	3.0%
TOP 10 (ex EU)	41 210		70.6%
TOTAL ALL COUNTRIES	58 378		100%

➤ **Australia's top 10 merchandise export markets 2002
(\$ million)**

	Merchandise	Rank	Share
JAPAN	22 164	1	18.5%
<i>(European Union)</i>	14 861		12.4%
UNITED STATES	11 523	2	9.6%
REPUBLIC OF KOREA	9 970	3	8.3%
CHINA	8 362	4	7.0%
NEW ZEALAND	7 904	5	6.6%
UNITED KINGDOM	5 598	6	4.7%
SINGAPORE	4 942	7	4.1%
TAIWAN	4 746	8	4.0%
HONG KONG	3 541	9	3.0%
INDONESIA	3 057	10	2.6%
TOP 10 (ex EU)	81 807		68.5%
TOTAL ALL COUNTRIES	119 497		100%

Note: The EU is not ranked, as it is not a country, but is included in the table for comparative purposes.

Source: ABS Trade data on DFAT STARS data base.

Australia's top ten services export markets have changed significantly over the past decade, with the US and UK surpassing Japan as Australia's largest services export markets, and China replacing Papua New Guinea in the top ten.

➤ **Australia's top 10 services export markets 1991–92 (\$ million)**

	Services	Rank	Share
<i>(European Union)</i>	3 018		20.6%
JAPAN	2 710	1	18.5%
UNITED STATES	1 877	2	12.8%
UNITED KINGDOM	1 871	3	12.8%
NEW ZEALAND	1 139	4	7.8%
HONG KONG	595	5	4.1%
SINGAPORE	564	6	3.8%
MALAYSIA	483	7	3.3%
GERMANY	453	8	3.1%
INDONESIA	365	9	2.5%
PAPUA NEW GUINEA	285	10	1.9%
TOTAL TOP 10 (ex EU)	10 342		70.6%
TOTAL ALL COUNTRIES	14 653		100%

➤ **Australia's top 10 services export markets 2001–02 (\$ million)**

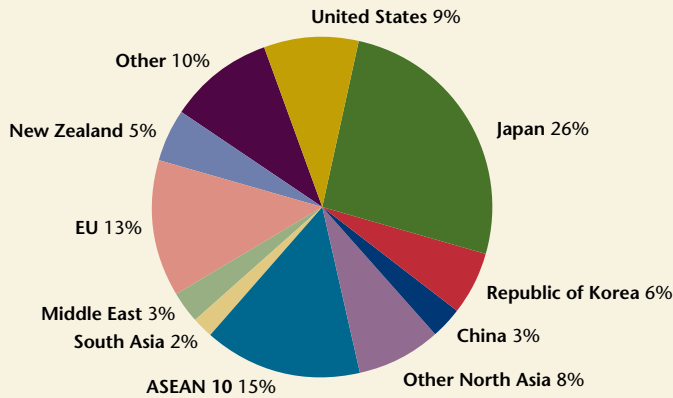
	Services	Rank	Share
<i>(European Union)</i>	6 035		19.3%
UNITED STATES	4 705	1	15.1%
UNITED KINGDOM	3 443	2	11.0%
JAPAN	3 402	3	10.9%
NEW ZEALAND	2 168	4	6.9%
SINGAPORE	2 160	5	6.9%
HONG KONG	1 443	6	4.6%
INDONESIA	945	7	3.0%
GERMANY	855	8	2.7%
CHINA	836	9	2.7%
MALAYSIA	801	10	2.6%
TOTAL TOP 10 (ex EU)	20 758		66.5%
TOTAL ALL COUNTRIES	31 197		100%

Note: The EU is not ranked, as it is not a country, but is included in the table for comparative purposes.

Source: ABS Trade data on DFAT STARS data base—ABS regional services data 2001–02.

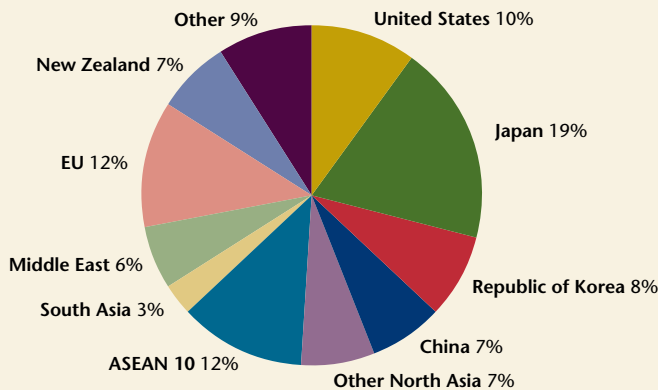
Australia’s merchandise export markets are diverse. Asian markets accounted for 60 per cent of Australia’s merchandise exports in 1992 and 56 per cent in 2002. The Middle East has been the fastest-growing regional market over the past decade.

➤ Destination of Australian merchandise exports 1992



Source: ABS cat. 5302, DFAT.

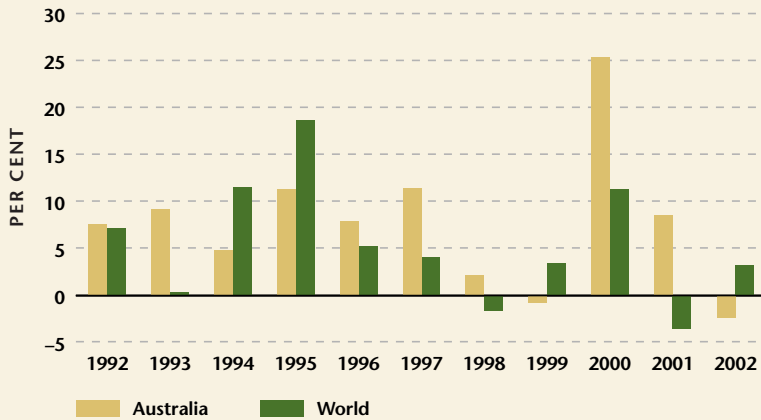
➤ Destination of Australian merchandise exports 2002



Source: ABS cat. 5302, DFAT.

Over the past ten years, Australia's export growth has averaged 7.9 per cent a year, compared with an average 5.3 per cent for world export growth.

➤ Growth in Australian exports and world exports in 1992–2002

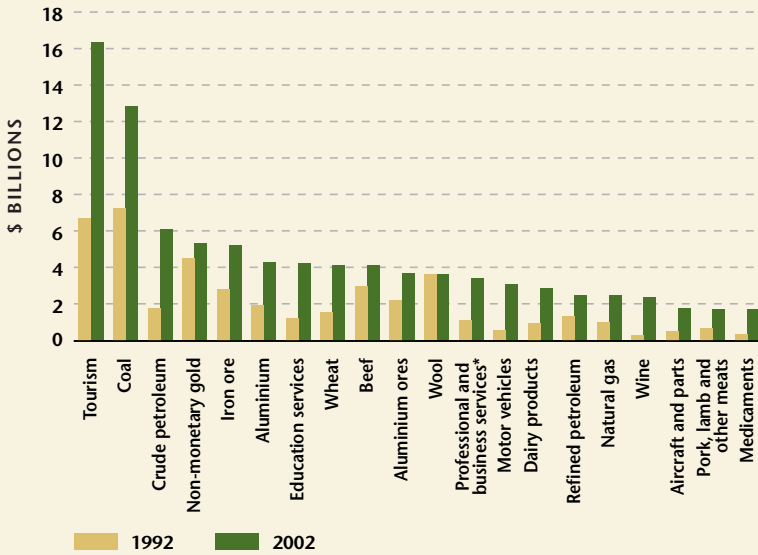


Note: Australian exports measured in \$A, world exports measured in \$US.

Source: ABS cat. 5302 and IMF.

Australia's major exports include commodities, manufactures and services, with the three fastest-growing exports over the 1990s being wine (about 790 per cent growth), motor vehicles (about 475 per cent) and medicaments (about 400 per cent).

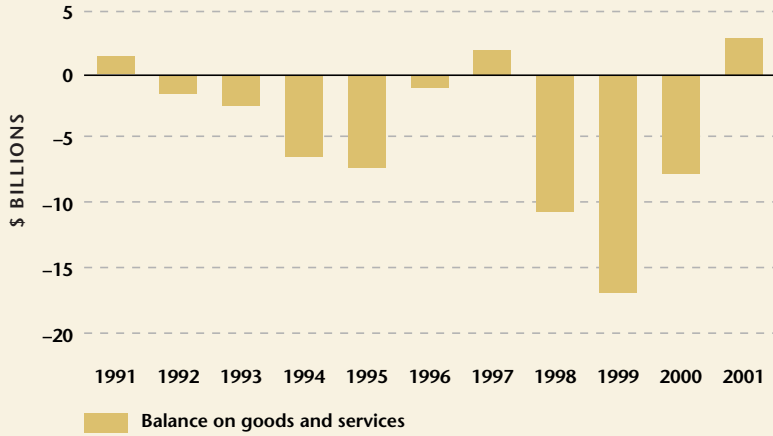
Top 20 Australian exports in 2002 (and 1992 for comparison)



* Includes services such as architecture, legal, accountancy and engineering.

Source: ABS cat. 5302, DFAT.

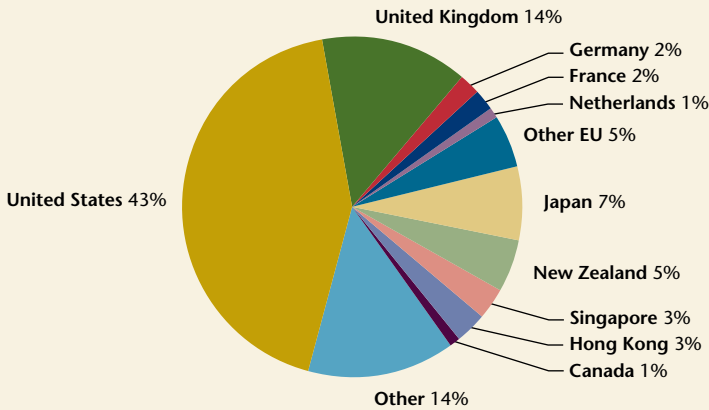
➤ Australia's trade balance 1991–2001



Source: ABS cat. 5302.

As with trade, Australia's three largest investment partners are the United States, the European Union (notably the United Kingdom) and Japan.

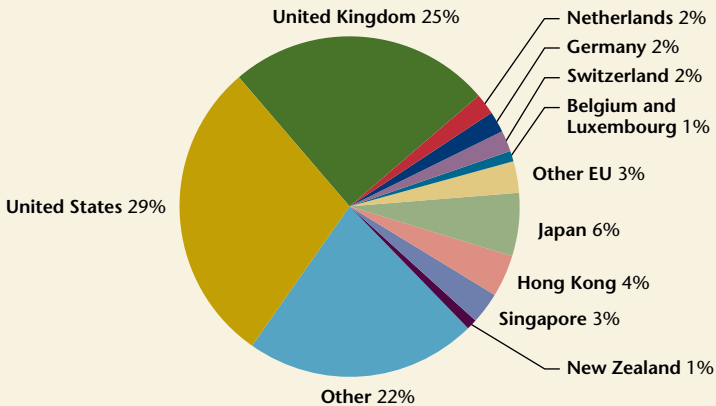
➤ **Top 10 destinations for Australian investment abroad* 2000–01**



* Level of total investment at 30 June 2001.

Source: ABS cat. 5352.

➤ **Top 10 foreign investors* in Australia 2000–01**



* Level of total investment at 30 June 2001.

Source: ABS cat. 5352.

APPENDIX 3

AUSTRALIA'S GLOBAL DIPLOMACY

Functional affinities at work: examples of Australian interests advanced through cooperation

ISSUES/GROUPS	AIMS	MEMBERSHIP (incl. Australia)
Economic/Trade		
Cairns Group	Global agricultural trade reform	Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, Uruguay
Financial Stability Forum	Assess and oversee action to correct vulnerabilities in the international financial system	Canada, France, Germany, Hong Kong, Italy, Japan, Netherlands, Singapore, United Kingdom, United States
Four (Six) Markets Group	Promote specialist and informal discussion on financial economic issues in the region	Hong Kong, Japan, Singapore, (China, United States)
Friends of Fish	Reform of global fishing industry through the WTO	Argentina, Bangladesh, Chile, Ecuador, Iceland, India, Indonesia, Malaysia, Morocco, Mexico, New Zealand, Norway, Peru, Philippines, Singapore, Thailand, United States, Venezuela
Group of 20	Promotion of international financial stability	Argentina, Brazil, Canada, China, European Union (Presidency), France, Germany, India, Indonesia, Italy, Japan, Mexico, Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States
World Wine Trade Group	Wine trade liberalisation initiatives and information exchange	Argentina, Canada, Chile, New Zealand, South Africa, United States

ISSUES/GROUPS	AIMS	MEMBERSHIP (incl. Australia)
Security/Political		
Australia Group	Strengthen export controls on chemical/biological weapon inputs	Argentina, Austria, Belgium, Bulgaria, Canada, Cyprus, Czech Republic, Denmark, European Commission, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Republic of Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States
CANZ	Caucus on UN issues	Canada, New Zealand
G10	Strengthen nuclear safeguards and supply policy	(11 members) Austria, Canada, Denmark, Finland, Hungary, Ireland, Netherlands, New Zealand, Norway, Sweden
Geneva Group	Promote UN management and fiscal reform	Core: Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Russia, Spain, Sweden, Switzerland, United Kingdom, United States
JUSCANZ	Exchange views, coordinate approach on UN issues	Core: Canada, Japan, New Zealand, United States; Other members: Iceland, Lichtenstein, Mexico, Norway, Republic of Korea, Russia, San Marino, Switzerland, Turkey
Margineers Group	Discuss approach to Commission on the Limits of the Continental Shelf	Argentina, Canada, India, Ireland, New Zealand, Norway, United Kingdom, United States, Uruguay
Missile Technology Control Regime	Prevent proliferation of missiles and other unmanned WMD delivery systems	Argentina, Austria, Belgium, Brazil, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Republic of Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Russia, South Africa, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom, United States

ISSUES/GROUPS	AIMS	MEMBERSHIP (incl. Australia)
Nuclear Suppliers Group	Prevent proliferation of nuclear weapons through export controls on sensitive nuclear and dual-use items	Argentina, Austria, Belarus, Belgium, Brazil, Bulgaria, Canada, Cyprus, Czech Republic, Denmark, European Commission (observer), Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Kazakhstan, Latvia, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Republic of Korea, Romania, Russia, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom, United States
Wassenaar Arrangement	Transparent and responsible transfers of conventional arms and dual-use technologies	Belgium, Bulgaria, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Republic of Korea, Romania, Russia, Slovakia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom, United States
Zangger Committee	Prevent proliferation of nuclear weapons through export controls on sensitive nuclear items	Argentina, Austria, Belgium, Bulgaria, Canada, China, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Latvia, Luxembourg, Netherlands, Norway, Poland, Portugal, Republic of Korea, Romania, Russia, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom, United States

ISSUES/GROUPS	AIMS	MEMBERSHIP (incl. Australia)
Environment		
Biosafety Commodity Exporters Group	Cooperate on trade policy and commercial implications of the Biosafety Protocol	Argentina, Brazil, Canada, New Zealand, Uruguay, United States
Umbrella Group	Pursues common objectives in climate change negotiations	Canada, Iceland, Japan, Kazakhstan (observer), New Zealand, Norway, Russia, Ukraine, United States
Valdivia Group	Promote Southern Hemisphere views on environment issues	Argentina, Brazil, Chile, New Zealand, South Africa, Uruguay
Whale Protection Group	Protection of whales through the International Whaling Commission	Core: Argentina, Brazil, Germany, Italy, Mexico, Monaco, Netherlands, New Zealand, United Kingdom, United States Others: Austria, Chile, Finland, France, India, Ireland, Oman, Peru, Portugal, San Marino, South Africa, Spain, Sweden, Switzerland
Other		
Consular Colloque	Cooperation on consular issues and crises	Canada, New Zealand, United Kingdom, United States
Five Nations Conference	Cooperation on travel documentation	Canada, New Zealand, United Kingdom, United States

GLOSSARY

ABS	Australian Bureau of Statistics
ADB	Asian Development Bank A multilateral development finance institution dedicated to reducing poverty in the Asia-Pacific region. The Bank was established in 1966 and is headquartered in Manila. Owned by its 61 member countries (44 regional countries and 17 countries from outside the region), the major Bank shareholders are Japan, the United States, China, Canada and Australia.
ADF	Australian Defence Force
AFTA	Association of South-East Asian Nations Free Trade Area (see ASEAN below)
AFTA-CER CEP	Association of South-East Asian Nations Free Trade Area-Closer Economic Relations Closer Economic Partnership At their 7th annual conference held in Brunei Darussalam in 2002, Trade Ministers from ASEAN countries, Australia and New Zealand signed a joint ministerial declaration which launched the CEP and set a target of doubling trade and investment by 2010.
AICC	Australian International Cultural Council Established in 1998 following the Cultural Relations Summit convened by the Minister for Foreign Affairs, Alexander Downer. It is a consultative group that draws together leaders from government, the arts community and business with a common interest in more effective international promotion of Australian arts and culture.
ANZCERTA	Australia New Zealand Closer Economic Relations and Trade Agreement

GLOSSARY

ANZUS	Security Treaty between Australia, New Zealand and the United States
APEC	Asia-Pacific Economic Cooperation Established in 1989, member economies are Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong SAR, Indonesia, Japan, the Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Chinese Taipei, Thailand, the United States and Vietnam.
ARF	ASEAN Regional Forum A regional security forum established in 1994. Members are Australia, Brunei Darussalam, Burma, Cambodia, Canada, China, the Democratic People’s Republic of Korea, 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.
ASEAN	Association of South-East Asian Nations Members are Brunei Darussalam, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam.
ASEAN+3	Association of South-East Asian Nations plus Three (China, Japan and the Republic of Korea)
AusAID	Australian Agency for International Development
AUSMIN	Australia-United States Ministerial Consultations
Austrade	Australian Trade Commission
Bogor Goals	Commitment made by the Leaders of APEC economies at Bogor, Indonesia in 1994 to free and open trade and investment by 2010 for APEC’s industrialised economies and 2020 for APEC’s developing economies.
BSE	Bovine Spongiform Encephalopathy or ‘Mad Cow’ Disease

BWC	<p>Biological Weapons Convention</p> <p>The Convention seeks to prohibit the production and stockpiling of bacteriological (biological) and toxin weapons and promote their destruction. It was opened for signature in 1972 and entered into force in 1975. There are currently 145 parties to the Convention, including Australia, and 18 signatories yet to ratify.</p>
CAP	<p>Common Agricultural Policy</p> <p>The regime of the European Union to manage agricultural production and trade.</p>
CARICOM	<p>Caribbean Community and Common Market</p> <p>An organisation to promote political and economic cooperation among Caribbean states. It was established in 1973 to replace the Caribbean Free Trade Association. The 14 member states are Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.</p>
CEP	Closer Economic Partnership
CER	see ANZCERTA
CHR	(United Nations) Commission on Human Rights
COAG	<p>Council of Australian Governments</p> <p>Comprises the Australian Prime Minister, State Premiers, Territory Chief Ministers and the President of the Australian Local Government Association. It meets annually, and more regularly if required, to discuss issues of national interest and, where necessary, seek endorsement for agreed national approaches.</p>
Colombo Plan	<p>An international program of economic and technical assistance agreed by Commonwealth members in 1951 (later expanded to include the United States, Japan and others). A key element of the Plan is the provision of education to students from recipient countries.</p>

GLOSSARY

Commonwealth	The Commonwealth consists of 54 member states, mostly former British colonies, with a combined population of 1.7 billion.
CTBT	Comprehensive Nuclear-Test-Ban Treaty Adopted by the UN General Assembly in 1996, the Treaty prohibits all nuclear test explosions in all environments. To date, 93 countries, including Australia, have ratified the treaty.
CWC	Chemical Weapons Convention An international treaty that bans the use of chemical weapons and aims to eliminate them, everywhere in the world, forever. The CWC entered into force in 1997 and currently has 146 parties to the Convention, including Australia, and 28 signatories yet to ratify.
DFAT	Department of Foreign Affairs and Trade
DIMIA	Department of Immigration and Multicultural and Indigenous Affairs
Doha Round	The ninth round of multilateral trade negotiations under the GATT/WTO, launched at the Fourth WTO Ministerial Conference in Doha, Qatar in November 2001.
DPRK	Democratic People's Republic of Korea
EC	European Commission The executive body (public service) of the European Union.
EMDG	Export Market Development Grants scheme (Austrade)
ETM	Elaborately-transformed manufactures
EU	European Union Members are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

FAO	Food and Agriculture Organisation
	Established in 1945 as the United Nations organisation with the mandate to raise levels of nutrition and standards of living, to improve agricultural productivity and to better the conditions of rural populations around the world. It has 183 member countries, including Australia, plus the European Union.
FDI	Foreign direct investment
FMCT	Fissile Material Cut-off Treaty
	A proposed international treaty that would ban the production of fissile material for nuclear weapons or other nuclear explosive devices.
FPDA	Five Power Defence Arrangement
	A set of regional security arrangements signed in 1971 by Australia, Malaysia, New Zealand, Singapore and the United Kingdom.
FSF	Financial Stability Forum—see Appendix 3
FTA	Free trade agreement
G20	Group of Twenty—see Appendix 3
GATT	General Agreement on Tariffs and Trade
	Signed in 1948 to regulate trade between countries and encourage trade liberalisation, incorporated into the WTO in 1994.
GDP	Gross domestic product
Gini Coefficient	Derived from the Lorenz Curve, which plots the percentage of world income going to the poorest 10 per cent, 20 per cent and so on, of the population. The area between the Lorenz Curve and the 45 degree line is measured and then divided by the entire area below the 45 degree line, representing perfect global income equality. The quotient is the Gini Coefficient, a measure of income inequality.

GLOSSARY

HIPC	Heavily Indebted Poor Countries initiative Proposed by the World Bank and IMF and agreed by governments in 1996, the initiative provides a comprehensive approach to reduce the external debts of the world's poorest, most heavily indebted nations, and helps place debt relief within an overall framework of poverty reduction.
HIV/AIDS	Human Immuno-Deficiency Virus/Acquired Immuno-Deficiency Syndrome
IAEA	International Atomic Energy Agency United Nations agency established in 1957 as the 'Atoms for Peace' organisation working on nuclear verification and security, safety and technology transfer.
ICAO	International Civil Aviation Organisation The Organisation commenced operations in 1947, with core goals including cooperation on standards, air traffic control harmonisation, air transport facilitation, technical cooperation for development and legal issues.
ICC	International Criminal Court An international court for trying individuals accused of genocide, war crimes and crimes against humanity. As at 1 February 2003, 88 countries, including Australia, have ratified the Rome Statute of the ICC which entered into force in July 2002. The Court is expected to be fully operational by mid-2003.
ICT	Information and communications technology
IMF	International Monetary Fund Established in 1944 to encourage international monetary cooperation, assist member countries in correcting balance of payments deficits and promote foreign exchange stability.

INTERFET	<p>International Force in East Timor</p> <p>Authorised by the UN Security Council on 15 September 1999 to restore peace and security in East Timor, and to facilitate humanitarian assistance. Australia, as lead nation, was given the task of assembling and commanding the force. Full military authority was officially transferred from INTERFET to UNTAET on 23 February 2000.</p>
IWC	<p>International Whaling Commission</p> <p>Established in 1946 and currently with 49 member countries, including Australia. The main purpose is to review, and revise as necessary, measures in the Schedule to the International Convention for the Regulation of Whaling. The measures, among other things, provide for complete protection of certain whale species; designate specified areas as whale sanctuaries; and set limits on the numbers and size of whale catches.</p>
JSCOT	<p>Joint Standing Committee on Treaties</p>
KEDO	<p>Korean Peninsula Energy Development Organization</p> <p>Created in 1995 to advance the implementation of the Agreed Framework between the United States and the Democratic People's Republic of Korea (DPRK), under which the DPRK agreed to freeze and ultimately dismantle its existing nuclear program.</p>
Kyoto Protocol	<p>The Protocol to the United Nations Framework Convention on Climate Change (UNFCCC) adopted at the third session of the Conference of the Parties to the UNFCCC in Kyoto, Japan, in 1997. As at 28 January 2003, 104 countries had ratified the Protocol. It will enter into force when 55 countries that are party to the UNFCCC have ratified, incorporating 'Annex 1' countries responsible for at least 55 per cent of the total carbon dioxide emissions in 1990 from all Annex 1 countries. (Annex 1 comprises developed countries and a number of economies in transition.)</p>

GLOSSARY

LNG	Liquefied natural gas
MERCOSUR/ MERCOSUL	Southern Cone Common Market Established in 1994 to create a common market for trade in goods and services between Argentina, Brazil, Paraguay and Uruguay.
MINURSO	The United Nations Mission for the Referendum in Western Sahara
MSCI	Morgan Stanley Composite Index
MTCR	Missile Technology Control Regime—see Appendix 3
NAFTA	North American Free Trade Agreement Trade Agreement established in 1994 linking the economies of Canada, Mexico and the United States.
NATO	North Atlantic Treaty Organisation Established in 1949, it now has 19 full members who are committed to each other’s defence. Its members are Belgium, Canada, the Czech Republic, Denmark, France, Germany, Greece, Hungary, Iceland, Italy, Luxemburg, the Netherlands, Norway, Poland, Portugal, Spain, Turkey, the United Kingdom and the United States.
NGO	Non-government organisation
NPT	Treaty on the Non-Proliferation of Nuclear Weapons Entered into force in 1970, currently 187 countries are parties to the treaty, including Australia. Its objective is to prevent the spread of nuclear weapons and weapons technology, to promote cooperation in the peaceful use of nuclear energy and to further the goal of achieving nuclear disarmament and general and complete disarmament.

OECD	<p>Organisation for Economic Cooperation and Development</p> <p>Established in 1961 as the successor of the Organisation for European Economic Cooperation. Its key objectives have been to help build strong economies in its 30 member countries, hone market skills, improve efficiency, expand free trade and contribute to industrial development in industrialised economies.</p>
OPCW	<p>Organisation for the Prohibition of Chemical Weapons</p> <p>Organisation charged with the responsibility of implementing the provisions of the CWC (see above).</p>
Pacific Islands Forum	<p>Established in 1971 as a forum to promote political and economic cooperation in the South Pacific. Members are Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.</p>
Paris Club	<p>An informal group of official creditors whose role is to find coordinated and sustainable solutions to the repayment difficulties experienced by debtor nations. Permanent members are Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Russia, Spain, Sweden, Switzerland, the United Kingdom and the United States.</p>
SAS	(Australian) Special Air Services Regiment
STM	Simply-transformed manufactures
UN	United Nations
UNAMIR	United Nations Assistance Mission for Rwanda
UNFICYP	United Nations Force in Cyprus

GLOSSARY

UNGA	United Nations General Assembly
	The main deliberative organ of the United Nations. It is composed of representatives of all 191 members states, each of which has one vote. Decisions of the Assembly have no legally binding force on national governments.
UNHCR	United Nations High Commissioner for Refugees
UNITAF	Unified Task Force
	Unified Task Force in Somalia which operated under a UN mandate (authorised by the Security Council in December 1992).
UNSC	United Nations Security Council
	The Security Council has primary responsibility, under the UN Charter, for the maintenance of international peace and security. Permanent members are China, France, Russia, the United Kingdom and the United States.
UNTAC	United Nations Transitional Authority in Cambodia
UNTAET	United Nations Transitional Administration in East Timor
UNTSO	United Nations Truce Supervision Organisation
	Set up in 1948, it was the first peacekeeping operation established by the United Nations. UNTSO military observers remain in the Middle East to monitor ceasefires and supervise armistice agreements.
WEOG	Western European and Others Group
	One of the United Nations' five regional groupings. Its 27 member countries include all Western European nations plus Australia, Canada, New Zealand and the United States.

WFP	World Food Program
	Established in 1963 as the United Nations' frontline agency in the fight against global hunger. Its aims are to meet emergency food needs, support social and economic development, and to provide the logistic support necessary to deliver food.
WHO	World Health Organisation
	Established in 1948 as the United Nations' specialised agency for health, it has 192 member states, including Australia. Its objective is the attainment by all peoples of the highest possible level of health.
WMD	Weapons of mass destruction (biological, chemical and nuclear)
World Bank	Established in 1944 to provide loans to member countries for economic development projects where private capital is not available on reasonable terms.
WTO	World Trade Organization
	Established on 1 January 1995 as the successor to the GATT, it administers the framework of global trading rules which resulted from the Uruguay Round of trade negotiations.

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Australian Pork Limited

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Caritas Australia

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Greenpeace (Australia Pacific)

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Media Entertainment and Arts Alliance

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The Global Foundation

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The Religious Society of Friends (Quakers) in Australia

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Heads of Mission of the European Union member states represented in Canberra and the Representative of the European Commission

SUBMISSIONS FROM INDIVIDUALS

Professor Henry S Albinski

Visiting Professor, Government and International Relations, School of Economics and Political Science, University of Sydney

Mr Kel Dummett

Researcher, Sustainable Production and Corporate Accountability Centre for Design at RMIT University, Melbourne

Mr Geoff Edwards

Queensland

Mr Andrew Farran

Company Director, Analyst and Wool Producer

Mr Gregor Ferguson

Editor, Australian Defence Magazine

South Australia

Mr Peter C Friis

Queensland

Professor Evan Jones

Associate Professor of Political Economy, University of Sydney

Dr John Kunkel

International trade consultant, Rome

Mr Duyet Le Van

Communications Engineer/Consultant on Vietnam's IT and Telecom

New South Wales

Professor Samuel M Makinda, PhD

Associate Professor of International Relations, School of Politics and International Studies, Division of Business, Information Technology and Law,

Murdoch University

Mr Eric Manners

Queensland

Mr Alan Oxley

Australian APEC Study Centre, Monash University

Mr Michael Parasol
Student

Professor Dennis Rumley
Associate Professor, School of Social and Cultural Studies, University of
Western Australia

Professor A M Vicziany
Director, Monash Asia Institute,
Monash University