Asian Studies Center

Backgrounder

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BUILDING A BETTER U.S. PARTNERSHIP WITH AUSTRALIA

INTRODUCTION

The Asia-Pacific region is becoming increasingly important to the United States. In 1995, U.S. two-way merchandise trade with the Asia-Pacific region rose to $503 billion, 38 percent of America's global two-way merchandise trade. Despite such economic intensity, however, Asia-Pacific trade remains susceptible to political upheaval that could endanger American security. The People's Republic of China is building a large military which could be used to enforce its territorial claims on the Spratly Islands and Taiwan. North Korea simultaneously poses the threats of military aggression and internal collapse. In Southeast Asia, Cambodia and Myanmar continue to repress their citizens.

To protect its economic and security interests in the Asia-Pacific region, America needs partners. The U.S. already has a number of defense partners in Asia; but some, like Japan, are not very good at liberalizing trade and other commercial activities in the region. Australia, however, in addition to being a military ally, could function effectively in helping to advance America's interest in liberalizing trade in Asia.

Australia became a major player in the Asia-Pacific region only recently. For most of this century, the government in Canberra purposely developed a strong Western cultural and economic identity; but its protectionist policies also brought the country to the edge of economic ruin by the 1980s. Following the Labor Party's victory in the March 1983 elections, Prime Minister Bob Hawke began to deregulate the economy and dismantle protectionist trade barriers. Over the next decade, Australia was transformed from the developed world's second most protected economy into a leading proponent of free trade and investment in the Asia-Pacific Economic Cooperation (APEC) forum and the World Trade Organization (WTO). Under Hawke, Australia embraced the Asian market, welcomed Asian immigration, and reoriented Canberra's diplomatic and economic ties away from Europe and toward Asia and the United States. The result has been economic vital-

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ity, and newly elected Prime Minister John Howard is continuing these successful policies.

In addition, Canberra has developed especially close relations with countries in the Association of South East Asian Nations (ASEAN).[1] As an outside superpower, the U.S. cannot easily duplicate the diplomatic, economic, and military ties that proximity and dedication have presented to Australia. By cooperating with Canberra on trade and security issues, Washington can benefit from Australia's unique relations with other Asian countries to secure vital American interests in the Asia-Pacific region.

Unfortunately, however, the U.S.-Australian relationship is not living up to its potential. While Canberra and Washington are cooperating more closely on defense matters,[2] the U.S. often pursues counterproductive agriculture and trade policies that cost Americans and Australians dearly. For example, President Bill Clinton's vacillating trade policy is undermining Canberra's hopes for trade liberalization at the upcoming meetings of APEC ministers in the Philippines on November 22-25 and of the WTO in Singapore on December 9-12. The U.S. should be working with, not against, Australia to make these meetings a success for free trade.

Improving relations with Australia will help the U.S. better protect its interests in the caldron of economic opportunity and geopolitical danger that is Asia. To accomplish this goal, the President should:

- **Ask Congress to eliminate the dairy, agriculture export subsidy, and sugar programs** that together cost American consumers and taxpayers more than $10 billion every year.
- **Ask Congress to allow intracoastal shipping to use foreign-built, foreign-operated, or foreign-owned vessels.** The current Jones Act requirement that intracoastal shipping use U.S.-built, U.S.-operated, and U.S.-owned vessels adds between $3 billion to $10 billion annually to the logistics costs of American firms.
- **Ask Congress for fast-track authority to negotiate trade agreements free of contentious environmental and labor standards issues.** Fast track is needed to bring Chile into the North American Free Trade Agreement (NAFTA), to present a substantive action plan for trade and investment liberalization in APEC, and to participate in any future round of WTO negotiations.
- **Support Australia's initiative to harmonize such existing free trade agreements** as the North American Free Trade Agreement, Australia-New Zealand Closer Economic Relations Agreement (CER), and ASEAN Free Trade Area (AFTA) within APEC. This would enhance the prospects for expanding liberalization within APEC itself.

1 The original members of ASEAN are Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Vietnam joined in 1995.

2 In July 1986, newly elected Liberal Party Prime Minister John Howard agreed with the U.S. to host a new series of joint biennial military exercises and cooperate on missile defenses.

- **Participate fully in APEC's "concerted unilateralism" process.** Under concerted unilateralism, each APEC member prepares its own action plan to liberalize trade and investment, with each plan then subject to peer review to help assure compliance in achieving the ultimate goal. At present, there still are too many differences among APEC members for formal trade negotiations to succeed. Concerted unilateralism allows APEC members to take small but concrete steps each year toward APEC's ultimate goal of free trade and investment by 2020. Only if members gain confidence in each other can a more formal negotiating process be successful.
- **Work with Australia to complete unfinished items from the Uruguay Round of talks under the General Agreement on Tariffs and Trade (GATT).** These include sector agreements to liberalize trade in basic telecommunications and maritime transport, and new negotiations to liberalize agricultural trade.
- **Propose convening a new WTO round with the goal of achieving a global free trade and investment agreement by 2020.**
- **Enhance American military ties to Australia by offering to sell Canberra *Tomahawk* long-range cruise missiles and by including Canberra in the development any future Asian missile defense network.**

AUSTRALIA: A RISING POWER IN ASIA

It is easy for Americans to overlook Australia when thinking about Asian countries. Both stable and prosperous, Australia demands little attention from the crisis-dependent U.S. media. Moreover, most Americans do not really think of Australia as an Asian country. Unlike Asian countries with exotic cultures and languages, Australia and the U.S. share a common culture and language. It can be argued that Australia is more like the U.S. than any other country in the world.

But to overlook Australia when examining the Asia-Pacific region is a serious omission. There are four reasons for drawing this conclusion:

REASON #1: Australia is a major market for American goods and services, with a large and vibrant economy. For example:

- **Australia's gross domestic product (GDP) in 1995 was $347.6 billion, making Australia's economy the fourth-largest in Asia and the 14th-largest in the world.** Despite Australia's relatively small population of 18 million, its GDP is larger than that of India, Taiwan, or any Southeast Asian country. Only China, Japan, and South Korea have larger economies.
- **Australia is the world's 21st-largest trading power and America's 20th-largest trading partner.** Merchandise trade between Australia and the U.S. was $13.4 billion in 1995. In fact, the U.S. enjoyed a $7.5 billion merchandise trade surplus with Australia—the largest such U.S. surplus with any of the world's trading powers.
- **Australia hosts American direct investments of $24.7 billion.** Australia is the ninth-largest host to U.S. direct investment in the world and the second-largest in Asia, ranking only behind Japan.

- **Trade and investment liberalization has expanded U.S. exports to Australia significantly in recent years.** U.S. merchandise exports to Australia have grown by 94 percent, from $5.5 billion in 1986 to $10.8 billion in 1995, and currently provide jobs to approximately 215,000 American workers. Under Canberra's liberal economic policy (especially its policy of privatization), U.S. direct investment in Australia has exploded by 165 percent, rising from $9.3 billion in 1986 to $24.7 billion in 1995.

REASON #2: Australia is a major proponent of free trade and investment. For example:

- **Australia led the fight to include agricultural trade liberalization in the Uruguay Round Agreements.** In 1986, Australia organized the Cairns Group of 14 agricultural exporting countries to promote free trade in farm products.[3] Under Australian leadership, the Cairns Group succeeded during the Uruguay Round of multilateral trade negotiations in winning the first multilateral agreement to liberalize trade in agricultural products. Along with Brazil, the European Union, Japan, and the U.S., Australia is widely considered to be one of the five most influential members of the World Trade Organization (WTO).
- **Australia founded the Asia-Pacific Economic Cooperation (APEC) forum.** In January 1989, Prime Minister Bob Hawke proposed a meeting of government ministers from the Asia-Pacific region to establish a framework for economic cooperation. This led to the formation of the Asia-Pacific Economic Cooperation forum in Canberra in November 1989.[4] In November 1994, at Bogor, Indonesia, Australia and the other APEC member economies established the goal of "achieving free and open trade and investment" by 2010 for developed economies and by 2020 for developing economies.
- **Australia and New Zealand were the first countries to outlaw antidumping procedures in a free trade agreement.** In 1988, Australia and New Zealand agreed to revise the original Australia-New Zealand Closer Economic Relations Trade Agreement (CER) to make it the world's most comprehensive trade agreement. The CER removed all tariffs and quotas on trade in goods by 1990, established free trade in services, abolished antidumping procedures in bilateral trade, created a common labor market, and harmonized business and trade practices laws. As tariffs have fallen, protectionists in the U.S. and elsewhere increasingly have been employing antidumping procedures to curb imports. By abolishing antidumping procedures, the CER prevents such abuses.
- **Unlike the U.S., Australia has lowered its trade barriers unilaterally.** In May 1988, Australia announced that tariffs on most manufactured goods would be lowered from 15 percent to 10 percent by July 1992. In March 1991, it announced

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3 The members of the Cairns Group are Argentina, Australia, Brazil, Canada, Chile, Columbia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

4 The 12 original APEC member economies are Australia, Brunei, Canada, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and the United States. China, Hong Kong, and Taiwan (as Chinese Taipei) joined in 1991; Mexico and Papua New Guinea joined in 1993; and Chile joined in 1994.

that tariffs on most manufactured goods would be reduced further to 5 percent by July 1996, and that tariffs on textiles, clothing, and footwear would be reduced from 55 percent to 25 percent by July 2000.

Australia's schedule of tariff reductions:

Year	General Imports	Automotive Parts and Motor Vehicles	Textile, Clothing, and Footwear
1988	20% - 40%	57.5%	25% - 60%
1995	7% - 8%	27.5%	7% - 40%
1996	5%	25%	5% - 37%
2000*	5%	15%	5% - 25%

REASON #3: Australia is a strong military ally. Australia is one of America's most steadfast military allies. Australian and American troops fought together in World War I, World War II, the Korean War, the Vietnam War, and the Persian Gulf War. Australia and the U.S. also are parties to a mutual defense treaty: the Australia, New Zealand, and United States Security Treaty, commonly known as ANZUS.[5] Australia and Japan are among America's major military allies in the Asia-Pacific region.

Moreover, the Howard government recently has shown its willingness to enhance cooperation with the United States on defense and regional security issues. On July 26, 1996, Canberra agreed to host a new series of biennial military exercises called "Tandem Thrust." The first war game in March 1997 will involve 17,000 U.S. Marines and 5,000 Australian troops near Shoalwater Bay in Queensland. Subsequent American military training exercises will occur in the Northern Territory of Australia. Because of this cooperation, the U.S. can shift much of its Asian battle training away from densely populated Japan and Korea to sparsely populated areas of Australia (and possibly help to defuse local political tensions over American bases in Japan and Korea as well).

Canberra and Washington also have agreed to cooperate on missile defense issues. China is modernizing its missile forces and twice in the last year has used its missiles to threaten democratic Taiwan. During a July 1996 meeting in Canberra, Australian Minister of Defense Ian McLachlan and U.S. Secretary of Defense William Perry signed a new ten-year lease that will allow the U.S. to use a jointly manned intelligence facility at Pine Gap. The functions of this base will expand to include intelligence satellite downlinks now at the Nurrungar, Australia, facility, which soon will be closed. The Nurrungar facility enabled the U.S. Space Command to help Patriot missile operators defeat Iraqi Scud missiles during the Persian Gulf War, and Pine Gap could help the U.S. provide defense support that Israel can use to defeat missile threats. Such capabilities also could help Australia defend itself from missile threats.[6]

5 The Australia, New Zealand, and United States Security Treaty, known as ANZUS, is a mutual defense agreement. ANZUS was established on September 1, 1952; however, the United States unilaterally suspended its security obligations to New Zealand on August 11, 1986, following Wellington's decision to forbid nuclear-armed or nuclear-powered airplanes, submarines, and ships from entering New Zealand.

6 Jay Bushinshy, "Canberra in Scud alert deal," *The Sunday Herald*, July 14, 1996, p. 33.

Australia is in an ideal position to facilitate regional missile defense cooperation, and the facilities at Pine Gap could be expanded to provide intelligence information that might help the United States verify a future arms control agreement to limit the number of missiles deployed by Asian countries.[7]

REASON #4: Australia maintains close diplomatic ties to Asia. Australia can influence economic policymakers in Asian countries in ways the U.S. cannot. Canberra originated the concept of a regional economic forum that led to the formation of APEC in 1989. It also worked closely with President Suharto of Indonesia to persuade more reluctant APEC members to agree to the 1994 Bogor Declaration, which set as APEC's objective "achieving free trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies." Australia's successful trade liberalization encouraged the ASEAN countries to create their own ASEAN Free Trade Area (AFTA) in January 1992 and to reduce the period for its implementation from 15 to ten years in October 1995. Canberra's cooperative attitude toward trade with Asia has increased Australian influence in Asian capitals. For example, the Howard government is working closely with ASEAN leaders to coordinate strategy in APEC and the WTO.

HOW AUSTRALIA TRANSFORMED ITS WORLD PRESENCE

This remarkable new role for Australia has not occurred overnight. It is the result of a long transformation with deep roots in Australian history.

Despite Australia's proximity to Asia, for most of its history it has thought of itself as a European country. Because of this self-conception, Australian governments pursued policies known collectively as the "Australian Settlement." Among other things, the Australian Settlement encompassed a "whites only" immigration policy, dependence on the United Kingdom for defense and markets, and a highly protected and regulated domestic economy.

Throughout most of this century, Canberra tried to promote industrial development through a system of high tariffs and subsidies to Australian manufacturers. But this protectionism caused a protracted decline in Australia's economy relative to the economies of other developed countries. In 1900, Australia had the highest per capita gross domestic product in the world. Over the next 80 years, it experienced the slowest growth in per capita GDP of all developed countries. By 1980, Australia had fallen to 14th place in per capita GDP.

During the 1970s, Australia's defense and trade ties to Great Britain diminished. The United Kingdom's accession to the European Union in 1973 denied Australia preferential access to its historically most important export market. Meanwhile, the economic rise of Japan and the other "Asian tigers" provided Australia with vast new markets for its agricultural and mineral products. The integration of separate national economies into a sin-

7 See Richard D. Fisher, "Building a More Secure Asia Through Missile Defense," Heritage Foundation *Asian Studies Center Backgrounder* No. 138, October 24, 1995, pp. 10, 13, 15.

gle global economy made Australia's inward-looking economic policies increasingly burdensome.

Thus began a gradual backing away from the Australian Settlement policies. In 1973, Prime Minister Geoff Whitlam ended the "whites only" immigration policy. The result was significant Asian immigration, which caused Canberra slowly to begin to see itself more as an Asian country. Asian immigrants, with their cultural knowledge and language skills, have become a major asset for Australian firms doing business in Asia.

However, the decisive break with the Australian Settlement came in March 1983. Suffocating from double-digit inflation and unemployment rates, Australian voters elected a Labor Government led by Prime Minister Bob Hawke and Treasurer Paul Keating. Contrary to what people normally expected of a Labor government, Hawke and Keating, driven by fear of an economic crisis, began to liberalize Australia's economy. Keating himself best summarized the challenges facing Australia:

> We must let Australians know truthfully, honestly, earnestly, just what sort of international hole Australia is in.... If this government cannot get... a sensible economic policy, then Australia is basically done for. We will end up being just a third rate economy.... Then you are gone. You are a banana republic.[8]

Hawke and Keating boldly rejected Australia's traditional policy of protectionism. The Labor government exposed Australia's domestic economy to global market forces through deregulation, privatization, and trade liberalization. The Hawke (1983-1991) and subsequent Keating (1991-1996) governments reoriented Australia's trade policies toward Asia, and Australia began to think of itself as an Asian country. Labor sought to broaden and deepen Australia's diplomatic and economic ties to China, Japan, South Korea, the countries of Southeast Asia, and the U.S.

These policies have made Australia a major player in the Asia-Pacific economy. Japan is now Australia's largest trading partner (receiving 24.3 percent of total Australian exports in 1994-1995), followed by South Korea (7.9 percent), New Zealand (7.1 percent), and the United States (6.9 percent). Australia annually hosts 43,000 foreign students (mainly Asian) in its universities, earning more than $1 billion annually in service export income.

THE LEGACY OF U.S. POLICY: NEGLECT AND ABUSE

Despite Australia's growing importance in Asia, U.S. policy toward Australia is best described as benign neglect punctuated with occasional abuse—even though Australia and the United States are long-standing allies with shared interests in commercial and military travel on oceans and seas, promoting access by American and Australian firms to domestic markets in Asia, and preventing the domination of Asia by a hostile power.

However, it is undeniable that the U.S. has pursued agriculture and trade policies that have soured its relations with this emerging power. This may not have been intentional;

8 The "Banana republic" comment was made during a radio interview with John Laws on May 14, 1986.

American leaders simply did not pay adequate attention to the effects their decisions had on Australia. But the consequence has been undeniable: a missed opportunity to advance mutual economic interests in the Asia-Pacific region.

U.S. Agriculture Policy: A Losing Proposition. Over the past decade, the most serious dispute between Australia and the United States has been over agriculture policy. American and Australian farmers produce a wide range of agricultural commodities that compete with each other on world markets. Because of America's role as a large, if not dominant, producer and consumer of many farm commodities, U.S. agriculture policy profoundly affects world agricultural markets. Therefore, the level of agricultural protection and subsidies that Washington gives its farmers not only determines U.S. food production, consumption, and trade patterns, but also sets world prices for major agricultural commodities.[9]

By contrast, Australian farmers receive world prices for most of their agricultural products.[10] Thus, to the extent that U.S. agricultural subsidies distort world prices, Australian farmers are affected adversely by U.S. agricultural policy.

This problem was particularly serious in the 1980s when falling commodity and land prices caused agriculture subsidy costs to soar both in Australia and in the United States. Prime Minister Hawke and President Ronald Reagan chose radically different responses to this farm crisis. Hawke initiated a phaseout of Australia's agriculture price supports and subsidies. With the exception of its dairy industry subsidy (which will have been phased out completely in 2000), Australia now limits government agriculture assistance to inspection, quarantine efforts, pest control, education, and research.

By contrast, President Reagan created new export subsidies to improve the price competitiveness of American farm exports. Through the Food Security Act of 1985, the Reagan Administration established the Export Enhancement Program and the Dairy Export Incentive Program to subsidize U.S. agricultural exports. President George Bush later expanded these programs through the Food, Agriculture, Conservation, and Trade Act of 1990.

In the years since 1990, the attitude of American farmers toward federal agriculture programs has changed. Convinced in part by the successful transition of Australian farmers to subsidy-free agriculture, many American farmers have realized that they would be better off producing for the market instead of relying on government subsidy programs. When Congress began considering the reauthorization of federal agriculture programs in 1995, a revolution in American farm policy was at hand. The result was passage of the Federal Agricultural Improvement and Reform (FAIR) Act of 1996. In addition to granting wheat, feed grain, rice, and cotton farmers fixed but declining subsidies through

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9 Prior to 1996, U.S. agricultural programs were like a dike separating two bodies of water. One body is domestic prices; the other, world prices. When the U.S. increases agricultural subsidies and import barriers to maintain domestic prices at a higher level than world prices, foreign production that would have been sold in the U.S. is sold in other markets, and the larger supplies in other markets drive down world prices. But when the U.S. lowers agricultural subsidies and import barriers, American food imports increase. Thus, removing the dike simultaneously lowers domestic agricultural prices and raises world prices until they become identical.

10 Dairy products are an exception.

seven-year transition contracts, the FAIR Act terminates production controls on wheat, feed grains, rice, and cotton. While the Act made progress toward a free market in agriculture, however, the dairy and sugar programs were modified only slightly, and the export subsidy programs were left intact. Thus, many subsidies remain. For example:

- **The Dairy Program.** The U.S. government maintains high domestic prices for dairy products through a complex and interlocking system of support prices, milk marketing orders, and tariff rate quotas. This system severely restricts access to the American market by foreign competitors such as Australia.[11] The dairy program costs American consumers approximately $9 billion annually through high prices for milk, butter, and cheese, and American taxpayers will pay another $1.6 billion to maintain this program over the next five years.
- **The Dairy Export Incentive Program.** The Dairy Export Incentive Program provides subsidies to exporters of dairy products.[12] In addition to the fact that it will cost taxpayers approximately $120 million over the next five years without increasing the American dairy industry's international competitiveness, the Dairy Export Incentive Program depresses world dairy prices and reduces Australian dairy exports to third country markets.
- **The Export Enhancement Program.** The Export Enhancement Program has paid out more than $6 billion since 1986, mainly to assist wheat exports. Intended to make American grain more competitive abroad, the Export Enhancement Program is counterproductive. U.S. export subsidies depress world grain prices (to the obvious objection of Australian farmers) while raising domestic U.S. grain prices, thereby discouraging American farmers from exporting.
- **The Sugar Program.** The U.S. government maintains a high domestic price for sugar through a system of import tariff rate quotas.[13] In 1993, the U.S. General Accounting Office concluded that the sugar program hiked the domestic price of sugar to twice the world level and cost American consumers $1.4 billion a year. Higher U.S. prices caused sugar's share of the domestic sweetener market to fall from 79 percent in 1981 to 55 percent in 1994, forcing American sugar refiners to close processing facilities. Higher domestic prices also have driven American candy companies to move confectionery plants overseas to obtain cheaper sugar. At the same time, the sugar program has reduced world prices by an average of 4.8 cents per pound and

11 To maintain domestic prices of butter, cheese, and powdered milk, the federal government purchases any surplus of these products from processors at a fixed price ($10.35 per hundredweight in 1996). The federal government and the state of California use milk marketing orders that restrict the sale of fluid milk between different regions to maintain domestic milk prices. To limit foreign competition, the U.S. employs a tariff rate quota system that establishes country-by-country quotas for dairy imports. Under this system (as distinguished from a pure quota system), exporting countries may exceed their dairy import quotas, but the U.S. levies a prohibitively high tariff on dairy imports exceeding the quota.

12 American exporters receive cash or surplus dairy products from the federal government as a bonus for exporting dairy products to targeted markets. This moves dairy products from the domestic market to targeted foreign markets such as Algeria, Brazil, Jamaica, India, Iraq, and Mexico, simultaneously raising domestic dairy prices while reducing dairy prices in targeted foreign markets.

13 A tariff rate quota system differs from a pure quota system. It permits imports above the quota but also levies a prohibitively high tariff rate on them. Thus, imports effectively are limited to the quota amount in most circumstances.

caused Australia to export 89 percent less sugar to the U.S. since 1981. Thus, this program costs Australian exporters $274 million annually.

The Jones Act: A Burden on the American Economy. Another burden on both the U.S. and Australian economies is the Jones Act. Contained in Section 27 of the Merchant Marine Act of 1920, this law restricts maritime commerce between points within the United States to ships that are American-built, American-operated, and American-owned. In September 1994, the U.S. International Trade Commission found that the Jones Act adds from $3 billion to $10 billion annually to the logistics costs borne by American business firms.

The Jones Act also is a major irritant in relations with Australia. Canberra complains that this law prevents the sale of competitively priced Australian-made high-speed vessels to U.S. firms. On a broader scale, the Jones Act is an impediment to reaching an agreement in the WTO on liberalizing trade in maritime services. It prevents the President from opening intracoastal shipping to foreign-built, foreign-operated, or foreign-owned vessels. Because the U.S. refuses to liberalize its maritime industry in areas in which foreigners are competitive, many other countries are unwilling to liberalize their maritime industries in areas, such as logistics and port management, in which Americans are competitive. As a result, WTO negotiations on liberalizing maritime services have stalled.

THE IMPACT OF U.S. PROTECTIONISM ON RELATIONS WITH AUSTRALIA

While Australia has opened its economy, protectionist voices in the U.S. are urging Americans to shield themselves from the global economy. President Clinton's trade policy has been a series of mixed signals which have caused anxiety and confusion in Canberra. On the one hand, Clinton supported both the North American Free Trade Agreement (NAFTA) in 1993 and the Uruguay Round Agreements in 1994. He also signed the FAIR Act in 1996 to dismantle some protectionist and trade-distorting U.S. agriculture programs. On the other hand, however, Clinton appears to have strayed from his support of free trade in a number of different areas. For example, the President has:

- **Blocked an agreement with Congress to reauthorize fast-track negotiating authority for trade agreements.** President Clinton let fast-track authority for negotiating new trade and investment liberalization agreements expire in 1994. Under fast-track authority, trade and investment agreements negotiated by the President are submitted to Congress for a straight up-or-down vote; Congress may not amend any portion of a proposed agreement before voting on it. For two years now, the Clinton Administration has insisted that any bill reauthorizing fast track must allow the President to negotiate on environmental and labor standards issues.

  This position has caused fast track to stall in Congress. Republican leaders fear that environmental and labor rules in trade agreements could be misused to protect certain industries. Republicans in Congress therefore offered to pass a "clean" fast-track bill without the authority to negotiate on environmental and labor standards issues, but the Administration rejected this approach. Without fast-track authority, no country will enter into serious trade and investment liberalization negotiations with the U.S.[14] The result: Canberra fears that the failure to pass fast track will stall progress on trade and investment liberalization in the Asia-Pacific region.

- **Pushed for managed trade.** The Clinton Administration attempted to impose managed trade policies on Japan in the automotive parts and motor vehicles dispute of 1995 and with respect to semiconductors in 1996. This strategy alarmed Canberra. Although Tokyo and Washington ultimately reached agreements in 1995 and 1996, respectively, which avoided mandatory quotas, Clinton's approach to the conflict alienated Australia and other Asian countries. The result: American influence over the direction of trade and investment liberalization in the Asia-Pacific region has been diminished.

- **Shown ambivalence toward the Asia-Pacific Economic Cooperation (APEC) forum**. Canberra is happy that President Clinton embraced Australia's APEC initiative and hosted the first APEC Leaders' Meeting near Seattle in 1993. It also is pleased that in 1994 the United States agreed to create a free trade and investment area in the Asia-Pacific by the year 2020. President Clinton and the other APEC leaders adopted a process known as concerted unilateralism to achieve the goal of a free trade and investment area in this region. Under this process, instead of negotiating a formal trade agreement like NAFTA, each member proposes its own action plan for realizing the common goal of free trade prior to the 1996 APEC meetings; each action plan is then subject to peer review to help assure that all will work toward the ultimate goal.

  Nevertheless, President Clinton's actions in the last two years have caused Canberra to question America's commitment to the APEC process. First, President Clinton skipped the 1995 APEC Leaders' Meeting in Osaka, Japan, because of the budget stalemate with Congress. This decision disappointed Australia's Prime Minister at the time, Paul Keating, and raised questions among other leaders in the region. Second, the Clinton Administration has yet to offer a substantive U.S. action plan for APEC liberalization; its proposed plan is confined merely to a list of liberalization commitments previously made in the Uruguay Round Agreements. Canberra fears that the Clinton Administration's failure to offer anything new will discourage other APEC members from making substantive trade liberalization commitments.

- **Failed to keep its commitment to liberalize trade in the WTO.** One of the Uruguay Round Agreements, the General Agreement on Trade in Services (GATS), established a general framework for liberalizing trade in various services in 1994. It also established a timetable for reaching specific agreements covering the financial services, telecommunications, and maritime transport sectors.

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14 If Congress were allowed to amend trade agreements, Congress would likely accept the concessions that foreign governments made to reach a deal while voting to reject U.S. concessions. Such an outcome obviously is unacceptable to any foreign government. To encourage foreign governments to negotiate trade agreements with the United States, Congress devised the fast-track procedure to force itself to accept or reject trade agreements as a whole.

The Clinton Administration backed away from its WTO commitments in 1995 and 1996. Claiming that India, Japan, Korea, and certain ASEAN countries had not made adequate offers to open their financial services markets, the Administration unexpectedly withdrew from the WTO negotiations to liberalize financial services markets on June 29, 1995, the day before the agreement was to be completed. When Australia and the European Union were unsuccessful in persuading the Clinton Administration to return to the bargaining table, they joined with other WTO members and signed a two-year interim financial services agreement excluding the United States. For the first time, a multilateral trade agreement was reached without U.S. consent. This demonstrates President Clinton's declining influence over the course of world trade liberalization.

While GATS established rules to be used in opening markets for certain telecommunications products such as electronic mail, voice mail, on-line information and data base retrieval, and electronic data interchange, Uruguay Round negotiators were unable to fashion rules covering such other basic products as long distance and international services. Therefore, the WTO continued the negotiations on trade liberalization in these basic services. Once again, claiming that offers from India and the ASEAN countries were inadequate, the Clinton Administration withdrew American support for a WTO telecommunications agreement on April 30, 1996, the day negotiations were scheduled to conclude. When Australia and the European Union failed to broker a compromise, the WTO extended its negotiating deadline to February 15, 1997.[15]

The Howard government interprets this failure to reach sector agreements as evidence of President Clinton's unwillingness to subordinate the special interests of certain American firms to the general benefits of trade liberalization. At the same time, Canberra feels that Clinton Administration policies are fueling deep division within the WTO by attempting to link trade with issues related to environmental and labor standards. Australia and other Asian countries see this as nothing but thinly veiled protectionism and a brake on global trade liberalization. Not only has the Clinton Administration once again alienated potential allies (as it did in APEC), but it may have forfeited America's leadership role in the upcoming December 9-12, 1996, WTO Ministerial Meeting in Singapore as well.

BUILDING A STRONGER U.S.-AUSTRALIA RELATIONSHIP

Despite Australia's growing economic and geopolitical importance in the Asia-Pacific region, President Clinton continues to ignore Canberra. His agriculture and trade policies have hurt Australia needlessly. Moreover, the Clinton Administration's opposition to renewing fast-track authority, its campaign for managed trade with Japan, and its vacilla-

15 The most important dispute concerns how to prevent telecommunications firms with monopolies in their home market for international services from undercutting other suppliers in competitive markets for international services. As a compromise, Australia proposed a safeguard that would allow a country to revoke a foreign firm's license to provide international services if that firm distorts the market with such cross-subsidies.

tion regarding APEC and the WTO have raised doubts in the Howard government about America's commitment to free trade.

These policies must be changed if the United States is to build a stronger relationship with Australia. Australia has changed greatly over the last decade. While maintaining its defense ties to the United States, it has developed closer diplomatic and economic ties to its neighbors in East and Southeast Asia and stands today as a leading advocate of free trade and investment. This new approach creates new avenues for cooperation between the U.S. and Australia. To facilitate this relationship and to enhance U.S. security and economic interests in Asia, there are several important steps that the Administration and Congress can take. Specifically, the President should:

- **Ask Congress to terminate the dairy, agriculture export subsidy, and sugar programs.** With passage of the FAIR Act, the U.S. began to wind down many economically irrational programs. However, the Dairy Program, Dairy Export Incentive Program, Export Enhancement Program, and Sugar Program survive largely intact. These programs raise U.S. consumer prices, cost American taxpayers billions of dollars annually, and decrease world prices for agricultural commodities. Eliminating them would remove a major impediment to improved U.S.-Australia relations and strengthen both economies.

- **Ask Congress to allow intracoastal shipping to use foreign-built, foreign-operated, or foreign-owned vessels.** Repealing the Jones Act would help both the U.S. and Australia by allowing the use of competitively priced, Australian-made high-speed ships in U.S. waters. The result would be to lower logistics costs for American business firms and consumers.

- **Ask Congress for fast-track authority to negotiate trade agreements free of contentious environmental and labor standards issues.** The U.S. needs fast-track authority to offer a substantive action plan for trade and investment liberalization at APEC, to harmonize NAFTA with other regional free trade agreements, and to commence a new round of WTO negotiations. The President should drop his insistence that authority to negotiate on environmental and labor standards issues must be included in any fast-track legislation. Environmental and labor standards issues may have an international dimension, but they should be addressed in separate negotiations on their own merits.

- **Support Australia's initiative to harmonize existing free trade agreements within APEC.** At upcoming APEC meetings, Canberra will urge members to harmonize existing free trade agreements such as NAFTA, the CER, and the ASEAN Free Trade Area. The President should support this Australian initiative. Harmonizing NAFTA, CER, and AFTA is a practical step toward trade and investment liberalization in the Asia-Pacific.

- **Participate fully in APEC's concerted unilateralism process.** There are too many differences among APEC members at present for negotiations on an APEC free trade and investment agreement to succeed. Before work can begin on a region-wide free trade zone, the APEC process must be strengthened. The strategy of concerted unilateralism allows members to take small but concrete steps each year toward APEC's ultimate goal of free trade and investment by 2020. Only if APEC members gain confidence in each other over the next few years can a more formal negotiating process be expected to succeed.

- **Work with Australia to complete unfinished items from the Uruguay Round of GATT talks.** At the WTO Ministerial Meeting in Singapore, the President should support Canberra's proposal to complete unfinished items from the Uruguay Round. Washington must work with Canberra to reach agreements on liberalized trade in basic telecommunications and maritime transport services by 1997. They also should work together to prepare for the new negotiations on agricultural trade liberalization that are scheduled to begin in 1999.
- **Propose convening a new WTO round with the goal of achieving a global free trade and investment agreement by 2020.** The President should exercise bold leadership and press other WTO members at Singapore to convene a new round of global trade liberalization talks by 1998. The new WTO round should subsume APEC's goal of free trade and investment by 2020 as its own. This policy could encourage APEC to accelerate the liberalization of trade and investment in Asia. It would not be the first time that trade liberalization in one set of negotiations spurred liberalization in another. In the early 1990s, for example, the creation of APEC helped bring the Uruguay Round negotiations to a successful conclusion.
- **Enhance American military ties to Australia.** The agreement to stage military exercises in Australia will provide U.S. forces with a better location than Japan and Okinawa for training. Relocating training exercises from these highly populated areas also may reduce public opposition to critical U.S. defense bases there. A renewed lease on the Pine Gap intelligence facility will benefit U.S. strategic goals in Asia and the Middle East. In return, the U.S. should offer to sell Canberra *Tomahawk* long-range cruise missiles for Australia's new *Collins*-class submarines. The U.S. also should include Australia in the development of any future Asian missile defense network.

CONCLUSION

Like Rip Van Winkle, who slept through the American Revolution, an Australian who dozed off 20 years ago and suddenly woke up today would find a very different country. For many years, Australia resisted developing an Asian Pacific identity. That resistance has given way to acceptance of Australia's destiny as a country embracing Asia and immersing itself in the Asian market.

Australia's transformation benefits the United States in ways that should not be overlooked by U.S. policymakers. By opening its economy, Australia has expanded the market for American exports and investments. It also is a well-positioned ally that can help the United States promote trade and investment liberalization throughout the Asia-Pacific region.

The U.S. has an unprecedented opportunity to help itself by working more closely with Australia in the Asia-Pacific region. Washington should take the fullest possible advantage of this opportunity by making every effort to remove irritants in its bilateral relations with Canberra. Chief among these irritants are counterproductive agriculture programs and the Jones Act, which hurt not only Australia farmers and shipbuilders, but also American consumers. The U.S. and Australia also should cooperate closely to ensure the success of the upcoming APEC and WTO meetings. Finally, the U.S. should continue and strengthen its military ties to Australia to help maintain peace in the Asia-Pacific. In these ways, the U.S. can expand markets for American goods and services while reversing the dangerous perception of declining American influence in Asia.

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