

**AUSAID  
SUBMISSION TO THE PRODUCTIVITY COMMISSION REVIEW INTO  
BILATERAL AND REGIONAL TRADE AGREEMENTS  
2010**

## **Preface**

The Productivity Commission requested the Australian Agency for International Development (AusAID) to provide a written submission to its Review of Bilateral and Regional Trade Agreements, focusing on AusAID's engagement or involvement in such trade agreements between Australia and developing countries. This invitation is in addition to the Productivity Commission's public call for submissions to the Review.

The Australian Government's overseas aid program aims to assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest.

Development aid, often specifically referred to as Official Development Assistance (ODA), is aid given by governments through their individual countries' international aid agencies, like AusAID.

With nearly 1.5 billion people living on less than US\$1.25 a day, two billion people having no access to clean water, and 150 million children never getting the chance to go to school, the Australian Government believes that giving aid is the right thing to do. Australia gives aid because we want to help those less fortunate than ourselves – to make a real difference to other people's lives.

Australia's aid program cannot help all developing countries, so it continues its selective approach to maximise its impact. Its focus is on those countries with low average incomes compared to the world average, especially those within the Asia-Pacific region. Engagement is being broadened and deepened in Africa and other parts of the globe. Efforts are directed where there is significant need and/or where significant positive results could be delivered.

The focus of this submission is that aspect of ODA called "aid for trade", especially the ODA delivered in the context of bilateral and/or regional trade agreements involving Australia and developing countries. The submission also comments on the broader issue of trade and development.

## Key messages

- AusAID considers liberalisation of trade and investment policies as an important pathway for economic growth and poverty alleviation.
  - AusAID therefore encourages developing countries to undertake further liberalisation, and supports activities that help achieve this objective.
- To get the most out of open markets and global economic integration, however, developing countries need to undertake broader economic reform (such as in public governance, taxation, competition policy and the labour market).
  - This is the so-called “twin pillars” approach of trade liberalisation and structural reform.
  - These need to be complemented with specific measures to build local capacity to take advantage of new trade and business opportunities.
- Additional aid provided towards strengthening trade policy and regulatory reform will lead to significantly more trade, according to a recent World Bank research.
  - Trade and development activities must be geared toward helping developing countries boost their trade and investment flows, and diversify their trade activities.
- Trade and development efforts by AusAID are consistent with Australia’s broader economic interests.
  - AusAID provides trade and development support through multilateral, regional and bilateral programs.
  - AusAID is working to ensure greater alignment between programs to strengthen outcomes for developing countries.
- Bilateral and regional trade agreements (hereafter collectively referred to as *trade agreements*) seen within the broader context of multilateral trade goals can be an effective mechanism for achieving trade and investment liberalisation.
  - When a developing country participates in a trade agreement with Australia, this provides AusAID with an opportunity to engage with that country on the economic benefits of trade and investment liberalisation and reform.
- To date, Australia has few trade agreements with developing countries.
  - These trade agreements in general are still relatively new, and it is early to expect to see evidence of development outcomes from them.
- AusAID has been generally engaged in those trade agreements involving Australia and developing country partners.
  - AusAID’s priority has been to ensure that trade negotiation goals are in line with development objectives, and that negotiations appropriately consider the developing country partner’s economic and institutional capabilities, and development needs.

- Whatever the outcomes of current trade negotiations, Australia is committed to assisting developing countries achieve sustainable and inclusive growth, including the reduction of poverty.
- The level of AusAID assistance to Australia's developing country partners in trade agreements has varied, and consistent with its broader aid program assistance will not be provided to all developing countries that may be partners to trade agreements in the future.
  - AusAID support has included building capacity and skills in policy development, international trade negotiation, and regulatory implementation.
  - These activities complement other trade and development efforts provided through other initiatives.

## **The benefits of trade**

The case for trade liberalisation has been well made by many prominent economists, from Adam Smith and David Ricardo to Milton Friedman and Jagdish Bhagwati, and many in between. Today, international organisations, including the World Trade Organization, the United Nations, the World Bank, the OECD and the ADB continue to highlight the benefits of trade.

Liberalisation policies can help increase trade and investment flows, which in turn lead to economic growth. While there may be questions about how the economic benefits from growth are distributed, the answer should not be to close off markets. The opportunity to improve people's livelihood through liberalisation and economic growth cannot be put aside due to fears of possible inequity in distribution. Such concerns should be addressed through reform of broader economic policies, including tax reform and appropriate social policy initiatives.

A more open global economy gives developing countries markets for their exports, which is an important element to achieving high economic growth, especially in the early stages of economic development. Reductions in trade barriers make imports cheaper, which mean lower cost inputs for domestic production and lower prices for consumer goods and services.

Open trade policies promote efficiency and increased productivity. These flow from increased competitiveness and the efficient use of resources. Open investment policies facilitate access to capital, innovative processes and management procedures, skills and technologies.

In its 2008 report, the Commission on Growth and Development highlighted that many economies have been able to grow almost continuously at an average rate of 7 per cent a year or more for an extended period, because the world economy has become more open and integrated. These fast growing economies have been able to import ideas, technologies and know-how from the rest of the world. And this growth contributed to substantial falls in absolute poverty.<sup>1</sup>

Australia's economy is a good example of what can be gained from trade liberalisation – it has benefited from this over the past 20 years. The lowering of tariffs and import quotas helped boost its GDP by between 2.5 and 3.5 per cent, and increased Gross National Income by 1.8 per cent per annum over the period.<sup>2</sup>

Trade and investment liberalisation of course is not enough. It must be accompanied by wide-ranging domestic economic reform and strong institutions. Developing countries need assistance to achieve these.

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<sup>1</sup> Commission on Growth and Development. Growth Report. 2008.

<sup>2</sup> The Centre for International Economics. Benefits of Trade and Trade Liberalisation. 2009.

## Trade and development

In December 2005, the WTO Hong Kong Ministerial called for real efforts to help developing countries, particularly Least Developed Countries, build the supply-side capacity and trade-related infrastructure needed to implement and benefit from WTO Agreements and more broadly to expand their trade. Since then, international support for so-called “aid for trade” or, in the broader sense, “trade and development” activities, has increased.

The OECD-WTO 2<sup>nd</sup> Review on Aid for Trade found that in a short time, “partner (developing) countries are mainstreaming trade in their development strategies and clarifying their needs and priorities; donors are improving aid for trade delivery and scaling up resources. In 2007, as was the case in 2006, aid for trade grew by more than 10% in real terms and total new commitments from bilateral and multilateral donors reached US\$25.4 billion, with an additional US\$27.3 billion in non-concessional trade-related financing”.<sup>3</sup>

### Aid for Trade definition and scope

While there is still a lack of agreement among expert commentators and practitioners (e.g. academics and officials) worldwide over the scope of aid for trade or trade and development, basically it is about providing assistance to developing countries to build or strengthen their trade and trade-related economic capabilities so they can optimise their participation in the global marketplace.<sup>4</sup>

Trade and development activities should help developing countries to:

- (i) boost trade and investment flows;
- (ii) encourage diversity in trade activities; and
- (iii) improve economic integration (on a regional and global basis).

These should lead to increased incomes, employment and public revenue. In turn these can contribute to sustainable and inclusive growth, and poverty reduction.

Trade and development activities usually involve:

- (i) *Policy development and analysis* – increasing the recognition in developing countries of the benefits of further trade liberalisation and open markets, including the merits of greater economic analysis and debate on the impact of proposed trade measures;

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<sup>3</sup> OECD and WTO. Aid for Trade at a Glance – Maintaining Momentum. 2009.

<sup>4</sup> The OECD perceives that “there seems to be an emerging consensus that the aid for trade agenda includes at least trade-related technical assistance and capacity building, and infrastructure. (But) there is less agreement on whether support to address supply-side constraints should remain confined to reducing trading costs (e.g. trade facilitation), or, in addition, should include support to increase the productive and competitive capacity of the private sector. There is even less agreement on whether adjustment costs should be part of the agenda”. OECD. The Development Dimension: Aid for Trade Making it Effective. 2006.

- (ii) *Trade negotiation skills* – building the capacity of developing countries to negotiate international trade agreements, and to implement and get more out of those agreements;
- (iii) *Adjustment programs* – undertaking structural reform, including re-skilling of workers to adjust to changing economic opportunities;
- (iv) *Trade facilitation and regional integration* – undertaking trade and investment facilitation initiatives, as well as behind-the-border regulatory reforms; and
- (v) *Infrastructure building* – supporting relevant infrastructure investments, including ports, rail, and ITC (information technology and communications).

### Gains from aid for trade

Studies have shown that improvements in supply-side capacity and trade-related infrastructure help strengthen the ability of countries to export or import. Improvements in transport and communications infrastructure, for example, lead to significant decreases in transportation costs and increases in trade volumes. Fast growing economies tend to be characterized by higher quality transport and IT infrastructure than low-income countries. And this quality infrastructure tends to be complemented by efficient trade-related institutions (e.g. Customs) which reduces the number of days to move goods across borders.<sup>5</sup>

A recent analysis by the World Bank underlines the significant impact of trade-related aid. The research found that a one per cent increase in aid directed toward trade policy and regulatory reform (about US\$11.7 million more) could generate an increase in global trade of about US\$818 million.<sup>6</sup>

A mid-term review of the Greater Mekong Subregion (GMS) Program found that intra-GMS trade has boomed in line with the doubling of the “openness ratio” of most GMS countries. Australia is investing more than \$170 million in transport and energy projects with the World Bank and Asian Development Bank in the GMS.

The activities Australia has supported under this program include:

- training of Customs officials at borders and development of implementation of a Customs Transit System (one common set of paperwork); and
- provision of ICT equipment to facilitate single window/one stop arrangements.

These are already delivering results.

<sup>5</sup> The World Bank. Unlocking Global Opportunities: The Aid for Trade Program of the World Bank Group. Washington DC. 2009.

<sup>6</sup> The one per cent increase is calculated from a 2007 aid for trade facilitation figure of about US\$10.5 billion. The researchers pose that a rate of return of US\$697 in additional trade for every dollar invested in aid for trade policy and regulatory reform could be achieved. Helble, M; Mann, C; Wilson, J. The World Bank Development Research Group trade Integration Team. “Aid for Trade Facilitation”. Policy Research Working Paper 5064. September 2009.

The processing time for cargo trucks crossing the Dansavanh–Lao Bao border has been reduced from 4 hours to 70 minutes, and for passenger cars from 2 hours to 30 minutes.

Trilateral agreement has been reached between Thailand, Vietnam and Laos on an open traffic and customs transit arrangement. Trucks can now move goods across the full length of the East-West Economic Corridor (which runs from Da Nang in Vietnam to Mae Sot in Thailand) without transshipment (i.e. unloading or reloading of the goods).

The three countries are also implementing a Cross Border Transport Agreement Fast Track arrangement at four border sites along the corridor to facilitate the passage of trucks holding CBTA road permits and GMS Customs Transit System documents.

### Australian efforts

The Government issued a Trade and Development Statement on 30 November last year (2009). The Trade and Development Statement underlines the strong link between trade reform and economic development.

Australia's trade and development activities are wide-ranging, and are funded through multilateral, regional, and bilateral arrangements:

- Multilaterally, including through support of the WTO's Global Trust Fund which helps developing countries be more constructively engaged in multilateral trade negotiations and implement their commitments;
- Support for regional bodies facilitating trade, include the Secretariat of the Pacific Community (for quarantine and standards issues), Oceania Customs Organisation (for customs management), and for trade agreements (e.g. ASEAN-Australia-New Zealand FTA, PACER Plus); and
- Bilateral support for countries when implementing reforms, developing infrastructure, building human capital and developing markets for trade.

Australia's trade and development support is mostly delivered in Asia and the Pacific. The largest bilateral recipients are Indonesia and Papua New Guinea. A snapshot of Australian trade and development programs is enclosed (See Attachment).

As participation in global trade is the most effective way of supporting the development of Least Developed Countries (LDCs), Australia has granted duty- and quota-free market access to all LDCs since 2003.

### **More trade and development is needed**

Despite the strong arguments for trade liberalisation, there continues to be significant pressure on governments around the world to impose restrictive trade measures. The global economic crisis further heightened that pressure. Modern trade protectionism is more "subtle and varied", with tariffs no longer the only way to set up



trade barriers. Countries now use “tighter licensing requirements, import bans and anti-dumping measures”.<sup>7</sup>

More concerning is that with the worldwide decline in economic and trade growth resulting from the global economic crisis, the World Bank estimates that “about 64 million more people will be living in extreme poverty (on less than US\$1.25 a day) in 2010 than would have been the case had the crisis not occurred. This will have a negative effect on the UN-agreed goal of halving poverty by 2015”.<sup>8</sup>

AusAID recognizes that the appropriate response to the crisis should not be to close off markets. Rather, actions and measures should be about encouraging a trade-led recovery. An often cited example of what authorities should not do is the US raising of tariffs in the 1930s, which deepened the Great Depression.

Opening markets can have similar effects to a stimulus package in helping to minimise the negative impacts of a global economic crisis. Of course, open market policies are only one of the important ingredients to building or maintaining a strong economy, including during a global economic crisis. Diversified exports, appropriate macroeconomic settings and strong domestic demand, among other things, are also helpful.

And it is critical to distinguish the short term from the longer term impacts of a crisis which reflect on the economic performance of any given country. For example, in the recent global economic crisis while some globally integrated countries might have been more affected than some other countries that are less globally integrated, the former group of countries is more likely to recover faster and achieve greater economic growth in the longer term, other things being equal.

Economic integration has at least two key benefits in times of crisis. Firstly, it allows countries to emerge more quickly from a crisis due to the connection between economies. Firms gain more flexible opportunities from larger and more diverse markets, and better options for access to finance. Secondly, economically integrated countries benefit through increased government revenue due to greater economic activity. These countries have an enhanced capacity to respond in crises through fiscal stimulus measures.

The “Asian miracle” provides a positive example of what international trade could do. In the Asia-Pacific, the ratio of merchandise trade to GDP increased from 31% in 1990 to 55% in 2006. Merchandise exports in 2006 accounted for more than 50% of the national economy in Malaysia and Thailand, and about 30% in Indonesia and China.<sup>9</sup>

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<sup>7</sup> “Globalisation and trade: the nuts and bolts come apart”. *The Economist*. 26 March 2009.

<sup>8</sup> World Bank Press Release No: 20102/234/DEC. “As World Economy Slowly Recovers, Developing World Faces Scarce Financing, Says World Bank”.

<sup>9</sup> (ESCAP) Economic and Social Commission for Asia and the Pacific. “Navigating Out of the Crisis: A Trade-led Recovery”. 2009.

As recovery from the crisis takes hold, countries will have further opportunities for growth and development. Assisting developing countries expand and diversify trade and investment will be necessary. AusAID intends to do more and strengthen its efforts in trade and development.

#### Coherence with broader Australian economic objectives

Through appropriate consultation AusAID seeks to ensure that its activities on trade and development are consistent with whole of government and with broader economic objectives. This includes reconciling short-term goals (such as concluding a trade deal) with longer-term and deeper objectives (such as economic development and poverty alleviation). These objectives need not conflict. They could be, in fact, mutually reinforcing. For example, while it may seem counter-intuitive to train developing country partners in the technical aspects of trade negotiations, it would lead to a number of benefits for Australia, including:

- (i) a more efficient negotiating process for the trade agreement;
- (ii) achieving a more optimal outcome from the agreement (including broader, deeper and more immediate market opening);
- (iii) better implementation of the agreement which would lead to better access for Australian exporters; and
- (iv) building up general capacity of the developing country partner(s) to pursue trade agreements that are WTO consistent and supportive of multilateralism.

Providing trade and development assistance underpins Australian national interest. There are a number of reasons for this, including:

- (i) improved economic growth by developing countries means potentially new or bigger markets for Australian exporters;<sup>10</sup>
- (ii) reduced overall production costs (including transport costs) in developing countries would provide Australian businesses with lower cost inputs;
- (iii) constructive participation by developing countries in international forums (such as the WTO) and standard-setting bodies means that everyone plays by the same rules;
- (iv) successful conclusion to trade negotiations is more likely, leading to meaningful market opening commitments and effective implementation by developing countries; and
- (v) greater regional integration and prosperity is likely to enhance political stability and peace.

### **AusAID involvement in trade agreements**

Bilateral and regional trade agreements could arguably be a “stumbling block” or a “building block” to the multilateral trading system. Trade diversion and the increasing complexity of conditions arising from the overlapping network of trade agreements are

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<sup>10</sup> This is separate to and does not contradict current Australian view of “untied aid”, which allows foreign-based organisations (from countries apart from Australia) to bid for contracts to supply goods and services under its aid program.

concerns to many commentators. On the positive side, these trade agreements provide further means for market opening and deeper integration, particularly for those trade agreements that go beyond WTO commitments.

AusAID also understands that developing countries might pursue such trade agreements for different reasons, and may not be pursuing these on purely economic grounds. There are often complex political and strategic factors underlying decisions to enter into such agreements.

AusAID views developing country engagement in trade agreements as an opportunity to further undertake detailed assessment of a developing country's current economic needs and future challenges on trade-related matters. It is a platform to advocate further trade liberalisation and economic reform, including by providing additional confidence- and capacity-building projects. It also facilitates closer consultation in designing better tailor-made development activities. In 2000, AusAID provided training for more than 650 Chinese officials on liberalised policies and procedures to support China's accession to the WTO and participation in future multilateral, regional and bilateral trade negotiations. Other examples are discussed in more detail below.

Australia has few trade agreements with developing countries. The trade agreement involving ASEAN, Australia and New Zealand (also known as AANZFTA) is currently the only trade agreement that has an Economic Cooperation chapter, which provides the parameters for capacity building activities for developing country partners. AANZFTA only recently entered into force, on 1 January 2010.

AANZFTA was particularly useful in providing AusAID with a valuable experience, and it is building on this with its engagement in the current negotiations on PACER Plus, the Trans-Pacific Partnership Agreement and on a possible bilateral trade agreement with Indonesia. As AANZFTA is very new and the other trade agreements are still being developed, it is too early to identify evidence of their development outcomes.

Case studies are presented below which outline AusAID involvement in and experience with AANZFTA, PACER Plus (under negotiation) and Indonesia (under consideration). Overall there has been a high degree of AusAID engagement and consultation in these trade agreements. As to be expected, however, there are variations in AusAID's engagement at different stages of a trade agreement (i.e. in the scoping, initiation, negotiation and implementation stages), and across the different agreements. The provision of support and the level of engagement for individual partner countries are determined on a case by case basis.

Support for capacity building activities for or under the trade agreements mostly comes from existing AusAID funding programs, but such funds are not taken away from any previously allocated activities. Activities funded under trade agreements are determined in close consultation between Australia and the developing country partners and/or relevant regional organisations, and AusAID endeavours to ensure that these

activities complement efforts being undertaken through existing programs (i.e. other than those being pursued under the trade agreements).

### ASEAN (AANZFTA)

Economic cooperation was a contentious issue in the initial stages of the AANZFTA negotiations and required considerable exploratory work before its coverage in the Agreement was settled. Initially Australia (including AusAID) argued that economic cooperation should not form part of the AANZFTA outcome and that economic cooperation assistance should be pursued through other existing bilateral and regional programs. However:

- ASEAN made clear in the AANZFTA negotiations that it regarded a specific economic cooperation program as an essential element of any AANZFTA deal;
- it was also recognised that Australia would benefit from economic cooperation focused on enhancing ASEAN's FTA implementation capacity and boosting economic integration between the Parties; and
- it was recognised that a high percentage of potential benefits from ASEAN trade agreements have not been realised because of poor implementation and thus the AANZFTA Economic Cooperation Support Program is an important opportunity to focus on implementation support and capacity building for ODA eligible ASEAN countries.

## **CASE STUDY 1 – AUSAID INVOLVEMENT IN THE ASEAN-AUSTRALIA-NEW ZEALAND FTA**

### **A. FTA Facility**

AusAID's involvement in the AANZFTA Agreement began after negotiations were launched (November 2004), led by the Department of Foreign Affairs and Trade (DFAT) for Australia. Focus was on operationalising the agreed "Guiding Principles" for the negotiations which included the following principles: "(b) the objective of the FTA should be to move towards deeper economic integration between the two regions through progressive elimination of all forms of barriers to trade in goods, services and investment, and through trade and investment facilitation and economic cooperation measures"; and "(e) recognising the different levels of development among the member countries of the two regions, provision should be made for technical assistance and capacity building programs to enable all parties to participate fully and to obtain the full benefit from the FTA".

AusAID was involved in close consultations with DFAT to identify an operational and funding mechanism to provide technical assistance and cooperation to support ASEAN member countries during the negotiations.

AusAID arranged the preparation of a scoping document in September 2005 which involved high level consultation with staff of the ASEAN Secretariat. The discussions focused on the capacity of ASEAN personnel to progress all regional FTAs under consideration at the time.

In December 2005, Australia announced \$1.5m for FTA capacity building. AusAID established the *Free Trade Agreement Capacity Building Facility (FTA Facility)* initially as a component of the then existing ASEAN Australia Development Cooperation Program (AADCP) (2006-2008: \$810,000), and then as a separate program (2008-2010: \$690,000).

The FTA Facility comprised three components:

- (i) technical cooperation activities where needs were identified by the Trade Negotiations Committee (e.g. rules of origin, scheduling of investment commitments, telecommunications regulatory disciplines, intellectual property, and tariff transposition);
- (ii) engagement of a senior officer in the ASEAN Secretariat to assist ASEAN member states with negotiations and implementation; and
- (iii) financial support for representatives of the three Less Developed Countries (Burma, Cambodia and Laos) to attend negotiating rounds in Australia.

Support was also extended for AANZFTA promotional activities. These were coordinated by the ASEAN Secretariat in preparation for the implementation of the AANZFTA. Activities currently underway include:

- (i) promotional materials (handbook on the AANZFTA and a rules of origin primer);
- (ii) ASEAN AANZFTA website aimed to provide information to business wanting to take advantage of opportunities under the AANZFTA; and
- (iii) an AANZFTA forum for business leaders to explore and implement promotional opportunities.

Funding for the negotiation and preparation for implementation was widely regarded as adequate and good value for money.

ASEAN Ministers and the ASEAN Secretary-General expressed their appreciation to Australia for the Facility<sup>11</sup>:

- the technical assistance provided on issues such as tariff and trade data analysis contributed to enhancing ASEAN's broader capacity in these areas, which assisted their participation in other FTA negotiations; and
- ASEAN officials noted that workshops on a range of issues (rules of origin, scheduling of investment commitments, telecommunications regulatory disciplines, intellectual property) helped countries to narrow differences and develop common understandings.

## **B. AANZFTA Economic Cooperation**

AusAID became actively engaged in AANZFTA negotiations on economic cooperation in September 2007 when coverage of economic cooperation in the FTA was settled. AusAID and a design support team of technical experts worked with the AANZFTA Working Group on Economic Cooperation and DFAT to develop a draft of the Economic Cooperation Work Program.

In December 2008, funding for Australia's contribution of up to A\$20 million over 5 years was announced. Throughout 2009, AusAID, in close consultation with DFAT, New Zealand MFAT and NZAID, and the ASEAN Secretariat conducted a two phase design process for the *AANZFTA Economic Cooperation Support Program*. In addition, preliminary consultations with Australian government partners and Brunei as co-ordinating chair of ASEAN relating to the

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<sup>11</sup> For example: At the 14<sup>th</sup> ASEAN Economic Ministers – Closer Economic Relations (AEM-CER) Consultations in Bangkok on 15 August 2009, Brunei's Second Minister of Foreign Affairs and Trade, Lim Jock Seng, as ASEAN Coordinator for AANZFTA, made a particular point of thanking Australia for facilitating the tariff transposition workshop in May which had assisted individual ASEAN countries with their transpositions. This followed expressions of strong appreciation from senior ASEAN economic officials and the ASEAN Deputy Secretary General Mr S Pushpanathan at the ASEAN Australia New Zealand Senior Economic Officials Meeting 16 July 2009.

AANZFTA were undertaken. The design document and related processes were presented and discussed at the informal AANZFTA Joint Committee meeting in December 2009.

The AANZFTA Economic Cooperation Support Program will fund:

- (i) a support unit within the ASEAN Secretariat with the following broad functions:
  - provide information to the AANZFTA Joint Committee to assist in decision making and implementing decisions;
  - assist Parties to track AANZFTA implementation progress against the AANZFTA objectives, and to identify successes to build upon and problems to be addressed;
  - support capacity development of national institutions of Parties to operationalise the AANZFTA and address regional implementation gaps;
  - assist development of regional mechanisms for effective collaboration and cooperation in the execution of the provisions of the AANZFTA; and
  - support Parties in the promotion of the AANZFTA to key audiences including business and industry including through the development of communication strategies.
- (ii) Economic Cooperation Work Program (ECWP) activities to assist implementation of the Agreement, in line with the Economic Cooperation chapter of the Agreement (chapter 12) and the associated ECWP document. This program will be managed by the support unit in the ASEAN Secretariat. The priority components were agreed to be:
  - Rules of origin and other aspects of the implementation of tariff commitments;
  - Sanitary and phytosanitary measures;
  - Standards, technical regulations and conformity assessment procedures;
  - Services;
  - Investment;
  - Intellectual property;
  - Sectoral integration; and
  - Customs.(Competition policy was also subsequently proposed for consideration by the AANZFTA Joint Committee for inclusion as an agreed component.)
- (iii) Quality assurance support, through funds remaining with AusAID, which will mainly cover the establishment and support of a monitoring and evaluation framework and AusAID requirements (including the development of the draft design document and the final completion report).

No new budget measure was sought to fund these activities. All activities will be funded through base appropriation from the ASEAN Program Fund.

Entry into force of the AANZFTA Agreement was 1 January 2010. Implementation of the AANZFTA Economic Cooperation Support Program will begin upon the signing of a Cooperation Arrangement between AusAID and the ASEAN Secretariat. Consultation on the Arrangement has been between AusAID and DFAT, ASEAN Economic Ministers and the Trade Ministers of Australia and New Zealand through their Senior Economic Officials (to whom the AANZFTA Joint Committee is accountable), and the Committee of Permanent Representatives to ASEAN (to whom the ASEAN Secretariat is accountable).

Very close consultation by AusAID with DFAT and the ASEAN Secretariat in particular continues.

## PACER Plus

The negotiations between Australia, New Zealand and the Forum Island Countries towards a Pacific Agreement on Closer Economic Relations Plus (PACER Plus) have only just commenced and are expected to take a number of years to complete. A Special Forum Trade Ministers Meeting was convened in October 2009 in Brisbane to discuss a framework for PACER Plus negotiations, including time lines and identification of key issues. The first substantive negotiating session was scheduled to take place in February but has been postponed until April 2010.

Australia's primary motivation for PACER Plus is to help provide a platform for sustainable economic growth in the Pacific. In addition to the support outlined in the case study, Australia provides ongoing and substantive support to Forum Island Countries (FIC) through other arrangements. Regardless of progress on PACER Plus, Australia will continue to provide support for a broad range of activities which help strengthen the capacity of Pacific Island countries to benefit from global trade and economic opportunities.

### **CASE STUDY 2 – AUSAID INVOLVEMENT IN PACER PLUS**

AusAID's involvement in the 'scoping' stage of PACER Plus was characterised by a high level of engagement and consultation with key stakeholders, including the Department of Foreign Affairs and Trade (DFAT) and New Zealand Aid (NZAID). AusAID sought to specifically engage and consult with DFAT on all aspects of the prospective negotiations and most specifically on the assessment and analysis of Forum Island Country (FIC) capacity to engage in and benefit from trade negotiations and the nature and extent of support required to assist FICs in the lead up to and during the negotiations.

AusAID Posts in the Pacific region, in consultation with partner countries, provided feedback on the development aspects of the prospective negotiations, specifically with regard to assessing national administrative capacity for the negotiations and broader trade constraints.

AusAID also consulted closely with NZAID in the assessment and analysis of FIC capacity to engage in and benefit from trade negotiations and the nature and extent of support required. AusAID co-funds a number of PACER Plus support activities with NZAID and engages in close policy dialogue on Pacific trade issues.

A new Initiative – *Pacer Plus Support Initiative* – was established in 2007/2008 to provide support to the FICs in the lead-up to and during the PACER Plus negotiations. The objectives are to:

1. Build FIC capacity to negotiate a regional free trade agreement, focusing on negotiation and technical skills, negotiation preparation, strategy and stakeholder engagement;
2. Develop analysis and policy research on Pacific trade, in order to allow FICs to make sound judgments on the costs and benefits of various negotiation options;
3. Engage stakeholders, to better inform civil society in the Pacific about the benefits and challenges of trade agreements, and to encourage practical assessment of the various options available; and

4. Facilitate and promote trade, to assist in building institutional capacity, in order to allow FICs to make full use of the opportunities offered by the trade agreements they are already party to, and future trade opportunities under PACER Plus.

Through this Initiative, AusAID has committed more than \$5.8 million to date to support FICs prepare for PACER Plus. This direct support for PACER Plus is complemented by ongoing and substantive support, regionally and bilaterally, to build country trade capacity through the Pacific Partnerships for Development and other AusAID programs.

Some key activities and results of this support during the 'scoping' stage, included:

- Completion of a series of five trade policy papers from the Pacific Institute for Public Policy, based in Vanuatu, to support FIC participation in discussions. The trade briefing series, including workshops and other research promotion, have contributed to wider discussion in the region around PACER Plus and provided background to key meeting discussions;
- Completion of a comprehensive report on the benefits and challenges of PACER Plus for FICs that contributed to discussion and consideration amongst the FICs of the costs and benefits of various negotiation options;
- Provision of WTO Trade Facilitation Needs Assessment workshops in the four WTO member states (PNG, Solomon Islands, Fiji and Tonga) and two accession countries (Samoa and Vanuatu). AusAID engaged the Oceania Customs Organisation to lead the workshops, in cooperation with Australia and New Zealand Customs. The workshops were aimed at identifying trade facilitation measures under PACER Plus, which will feed into customs strengthening activities under existing Australian assistance programs.

No new budget measure was sought to fund the above activities. These activities were funded from base appropriation under the Pacific Program Fund.

There was high level of consultation between AusAID and NZAID in co-funding a number of PACER Plus Support activities and in policy discussions concerning Pacific trade capacity. AusAID continues high level of engagement with DFAT in all aspects of the prospective negotiations. AusAID has also participated in broader DFAT-led consultations, including as part of inter-Departmental Committees.

In the scoping stage of the negotiation the emphasis was on trade research and analysis to encourage informed debate and consideration of the costs and benefits of various negotiation options.

AusAID's engagement continued at the 'initiation' stage of PACER Plus. As the discussions moved towards preliminary consideration of negotiations, AusAID supported additional activities to help build FIC capacity to prepare for the negotiations. The existing *PACER Plus Support Initiative* was continued and will be utilised throughout the course of the negotiations.

Some key activities and results during the 'initiation' stage, included:

- The establishment of an *Australian Leadership Awards Trade Fellowships* training program that is training one trade officer from each FIC to assist with preparations for negotiations. The training consists of ten modules, each one week in duration, which commenced in September 2008 and are scheduled to finish in August 2010. Seven modules have been completed to date;
- Establishment of a *Trade Research Initiative* that provides \$65,000 to each FIC to commission independent trade research in an area of identified need, to assist with preparing for negotiations. To date, one research study has been completed (Samoa), four are under way



(Niue, Nauru, Tonga and the Cook Islands) and one is being negotiated (Tuvalu) with other countries close to finalisation of terms of reference for their national studies;

- Support (with New Zealand) for Forum Island Country participation in PACER Plus meetings. Australia funded the Special Forum Trade Ministers' and Officials' meetings in Brisbane 22-24 October 2009 and will be providing funds for the next Forum Trade Officials Meeting in April; and
- Support for the establishment and operation of the Office of the Chief Trade Adviser to provide advisory services and technical assistance to the FICs during the negotiations.

FICs are likely to require further assistance to negotiate and implement PACER Plus and take advantage of new opportunities. The nature and scope of any additional support that is required through the negotiations will become clearer as the negotiations unfold and as the countries utilise the funding that Australia is providing for independent trade research. To ensure the greatest impact, any additional trade-related technical assistance in the Pacific must be demand-driven and work through established frameworks, including the Pacific Partnerships for Development and the Cairns Compact.

This support has largely been well-received by FICs. It has assisted in building capacity; increasing receptiveness to the commencement of negotiations; and establishing a shared understanding of issues and challenges. With the forthcoming commencement of substantive negotiations in 2010, the needs of FICs will take on a new focus. Future assistance under this initiative is likely to progress towards provision of independent advisory support for negotiations. In addition to the support for the Chief Trade Adviser responsible to all FICs, there is also likely to be support provided for dedicated national advisers for some key countries with particular responsibilities in the negotiations.

### Indonesia

Negotiation of a trade agreement with Indonesia is currently under consideration. There has been no announcement yet as to whether formal negotiations would proceed. The case study relates to AusAID's involvement at the scoping and pre-initiation stage of a possible trade agreement negotiation between Australia and Indonesia.

#### **CASE STUDY 3 – AUSAID INVOLVEMENT IN CONSIDERATION OF A POSSIBLE TRADE AGREEMENT WITH INDONESIA**

AusAID has been closely consulted on development aspects of a possible trade agreement with Indonesia. AusAID led the Australian contribution on the development cooperation chapter of the Indonesia Australia Free Trade Agreement feasibility study, which was jointly commissioned by DFAT and the Indonesian Ministry of Trade. AusAID was also provided with the opportunity to comment on each chapter of the feasibility study.

AusAID has initiated and will be separately funding a study to explore the relationship between trade, economic development and aid in Indonesia. As part of the work undertaken to prepare for possible negotiations, AusAID and DFAT have agreed on the importance of gaining an understanding of the factors relating to the challenges and opportunities for Indonesia achieving sustainable and inclusive growth, including those that might arise from the trade agreement. The study will include sectors that are most likely to be impacted by a bilateral trade agreement. The final report will help inform AusAID's contribution to the negotiation and implementation of

the proposed bilateral trade agreement. DFAT and academics from the ANU provided valuable contributions to the formulation of the terms of reference for the report, and a workshop is planned with trade experts and whole of government partners to discuss a draft of the report prior to it being published.

### Trans-Pacific Partnership Agreement (TPP)

The TPP is at its early stages. The first formal round of negotiations took place in Melbourne from 15 to 19 March 2010. Current TPP Parties are: Australia, Brunei Darussalam, Chile, New Zealand, Peru, Singapore, the United States and Vietnam (as an associate member).

AusAID is working closely with DFAT in defining Australia's approach to a potential chapter on "Strategic Partnership" or "Strategic Cooperation". Such a chapter would address issues such as technical assistance and capacity-building activities. There are also likely to be cooperation provisions in other chapters of the TPP (e.g. Customs Procedures, Technical Barriers to Trade, and Intellectual Property). Key early considerations (for AusAID) in framing a potential chapter on strategic cooperation include that:

- potential requests for assistance by current developing country partners should build on or complement support already being provided under other arrangements;
- appropriate flexibility is reflected in the scope and language of an agreed chapter to accommodate future participation in the TPP by other developing countries; and
- mechanism(s) to consider or provide resource support for cooperation proposals should be appropriately reflected in an agreed chapter.

AusAID is encouraged by the TPP's potential promise of a "multilateralising" regional trade agreement, which may grow over time to include additional parties i.e. both developed and developing economies in the region.

### SNAPSHOT OF AUSTRALIAN TRADE AND DEVELOPMENT PROGRAMS

Program Name	Country Assisted	Outcome
<b>Indonesia</b>		
Eastern Indonesia National Roads Improvement Project (EINRIP)	Indonesia	EINRIP supports regional economic and social development in Eastern Indonesia by improving the condition of the national road network. Improved roads will facilitate greater trade from isolated areas by connecting markets to ports, therefore reducing the time and cost involved with transporting exports.
Smallholder Agribusiness Development Initiative	Indonesia	Aims to achieve a sustained increase in rural growth and household incomes through productivity gains, better access to markets, and on and off-farm value-added activities in South Sulawesi, South-East Sulawesi, NTT, and NTB. (NOTE, program also includes the successor to the Australia-Indonesia Partnership for Decentralisation - Adding Value to Agriculture)
Australian Development Scholarships (ADS)	Indonesia	The Ministries of Trade, Foreign Affairs and Finance are all targeted organisations under the Australian Development Scholarships program. Together with the Ministry of Industry, these Ministries have together received a total of 478 scholarships since 1998.
Other key Indonesia Aid for Trade programs include:		
<ul style="list-style-type: none"> <li>• Technical Assistance Management Facility (TAMF) provides advisory and capacity building support to the Ministry of Trade. The technical assistance has assisted the Ministry to develop a training plan and produced sector studies in trade in labour, logistics and health and education, which informed Indonesian policy on trade in services.</li> </ul>		
<b>Asia Regional</b>		
ASEAN Australia Development Cooperation Program – Phase II	ODA eligible ASEAN member states	The program will strengthen the capacity of the Secretariat to implement the ASEAN Economic Community Blueprint, resulting in increased trading capacity and freer movement of people goods, capital and services in less developed ASEAN countries. The Program also supports important research and policy development on economic integration and trade issues, and funds projects that address domestic barriers to further economic integration in poorer ASEAN states.

AANZFTA Economic Cooperation Support Program (AECSP)	ODA eligible ASEAN member states	The program will support the implementation of the Agreement Establishing the ASEAN-Australia- New Zealand- Free Trade Area (AANZFTA) through Economic Cooperation Work Program (ECWP) activities, managed through a Support Unit established in the ASEAN Secretariat.
<p>Other key Asia Regional Aid for Trade programs include:</p> <ul style="list-style-type: none"> <li>• APEC Effectiveness Grant to assists the APEC Secretariat source short-term technical experts to provide analysis, advice and recommendations to increase the effectiveness of APEC's programs.</li> <li>• APEC Support Fund, which supports economic and technical cooperation activities.</li> <li>• APEC Public Sector Linkages Program – a flexible, responsive and competitive mechanism providing small grants for activities that build skills in partner countries in support of APEC's mandate to facilitate open and secure trade, investment, development and growth in its developing economies.</li> <li>• The East Asia Summit – Whole-of Government Support, which supports Australian involvement in the East Asia Summit process and supports initial discussions on the potential regional agreement (the Comprehensive Economic Partnership in East Asia).</li> <li>• APEC Targeted Cooperation Facility, which will fund high priority activities that support APEC's goals of facilitating trade and investment liberalisation and facilitation. It will identify, and commission, activities that align closely with Australia's national objectives for APEC in these areas.</li> </ul>		
<b>Mekong</b>		
Beyond WTO Technical Assistance Program, Phase II	Vietnam	Beyond WTO (phase 2) is a five year program of support helping Vietnam to maximise the employment and poverty reduction benefits of ongoing integration into the global economy.
WB Mekong Transport Infrastructure Development Project	Vietnam	Connecting rural poor living in Mekong Delta to new markets, AusAID is contributing \$33.0 million (total project value of US\$208 million) to World Bank Mekong Transport Infrastructure Development Project. Project focuses on connecting feeder roads and waterway networks to main transport corridors.
<p>Other key Aid for Trade programs in the Mekong region include:</p> <ul style="list-style-type: none"> <li>• detailed design work for the Cao Lanh bridge in Vietnam, subject to feasibility of the project being established.</li> <li>• a project to rehabilitate the Cambodian national rail network and establish a public-private partnership for its operation.</li> <li>• a project to rehabilitate transport infrastructure and border crossings between Ho Chi Minh City and Bangkok.</li> <li>• Cambodia Agriculture Value Chain Program to accelerate growth in the value of agricultural production.</li> <li>• contribution to the ADB managed Road Asset Management Project in Cambodia.</li> <li>• contribution (over 4 years) to the ADB managed Northern Transport Network Improvement in Lao PDR.</li> <li>• contribution (over 4 years) to the Enhanced IF and Trade Development Facility in Laos PDR.</li> <li>• subject to discussions with ADB, a multi-year program of support to trade and transport facilitation in the Mekong.</li> </ul>		

<b>Pacific</b>		
PACER Plus Support	Pacific Regional	The PACER Plus negotiations aim to provide a platform for sustainable economic growth in the Pacific region. Australia's support has four components: trade negotiation capacity building; analytic research; support for deepened engagement and participation in negotiations by trade partners; and support for trade facilitation and promotion.
Pacific Regional Agricultural Market Access program (PRAMA)	Pacific Regional	The Pacific Regional Agricultural Market Access program will help Pacific Island countries meet trading partners' customs and quarantine requirements. PRAMA will identify and prioritise products to target; facilitate the development of information for and progression of market access submissions; ensure their follow up through the approval system of importing countries' regulatory agencies; and facilitate the implementation of any necessary processes in exporting country government agencies.
Pacific Region Infrastructure Facility (PRIF)	Pacific Regional	PRIF is being jointly developed by AusAID, NZAID, ADB and the World Bank Group to support improved infrastructure services in the Pacific region, including in transport, water and sanitation, energy and telecommunications.
Pacific Seasonal Worker Pilot Scheme	Pacific Regional	Support to maximise economic development and trade outcomes from labour mobility i.e. pre departure briefing; financial literacy and enterprise development training, "add on" skills training, capacity building for partner governments and evaluation.
Pacific Islands Trade & Investment Commission	Pacific Regional	PITIC was established as an initiative of the Australian Government at the 1978 Pacific Island Forum. The Sydney PITIC provides regional trade commission services for Forum Island Countries in Australia through support for export development, investment, tourism and trade in general. It organises trade and investment missions, product exhibitions, market analysis, and tourism promotion.
Australia Pacific Technical College	Pacific Regional	The Australia-Pacific Technical College works in partnership with industry and regional governments to produce 'work-ready' Pacific islands graduates to Australian standards. It bolsters economic growth in the Pacific by helping to develop a more competitive regional workforce and, in some cases, will assist mobility of skilled workers between the Pacific and developed countries.
<p>Other key Pacific Aid for Trade programs include:</p> <ul style="list-style-type: none"> <li>• Support for the Forum Fisheries Agency to improve fisheries management and enhance fisheries development in the Pacific region.</li> <li>• Pacific Public Sector Linkages Program (PSLP), which provides a pool of contestable funding to fund governance activities linking Australian Government agencies directly with</li> </ul>		

<p>Pacific counterparts and supporting shared regional governance approaches.</p> <ul style="list-style-type: none"> <li>• Core funding to PFTAC, which employs a team of IMF experts to provide technical advice and training to Pacific island countries on public financial management, tax administration, banking supervision and statistics.</li> <li>• The Regional Private Sector Development Initiative (Phase II) implemented by the Asian Development Bank, is helping Pacific governments streamline and modernise the regulatory frameworks that affect business operations.</li> </ul>		
<b>Africa</b>		
The Australia-Africa Partnership Facility	Africa	The Australia-Africa Partnerships Facility provides scope to strengthen the capacity of African countries in for example, analysis, formulation and implementation of country - specific trade policies, strategies and negotiations. The following activities have been funded under the Facility:
(i) AMIRA International's West African Exploration Initiative (WAXI)	West Africa	Australia's contribution through the Australia-Africa Partnerships Facility will support training in West African Universities on topics including ethics and professionalism; budgeting and financial management; how to work with the mining sector and business skills and planning.
(ii) African participation in DFAT Trade Policy Course	Africa Regional	African participants are being funded through the Australia-Africa Partnerships Facility to participate in the DFAT Trade Policy Course. The course equips participants with the knowledge, skills and ability to formulate trade policy and to report on other countries' trade policies.
(iii) African participation in DFAT Graduate Training Program	Africa Regional	African participants are being funded through the Australia-Africa Partnerships Facility to participate in the DFAT Trade Policy Course. The course equips participants with the knowledge, skills and ability to formulate trade policy and to report on other countries' trade policies.
(iv) Ethiopian participation in Masters Courses on line from University of Canberra	Ethiopia	Through the Australia-Africa Partnerships Facility, Ethiopian Revenue and Customs Authority officials were funded to undertake a two-year online Masters Degree in International Customs Law and Revenue Administration through the Centre for Customs and Excise Services (CCES) of the University of Canberra.
(v) World Bank Conference on Corporate Social Responsibility	Mozambique	In March 2009, Australia co-sponsored the World Bank Conference on Corporate Social Responsibility (through the Australia-Africa Partnerships Facility). The conference focused on how the effective use of revenues and corporate social responsibility investments could accelerate long-term development.

Africa Food Security Initiative	Africa Regional	Trade and market development is one of three key components of Australia's four year \$100 million Africa Food Security Initiative. Support under this component will focus on improving regional market integration, trade, and private sector participation in African agricultural markets.
Africa Enterprise Challenge Fund (AECF) – Zimbabwe Window	Zimbabwe	Australia has provided \$5 million through AECF to support innovative private sector-led activities aimed at stimulating the private sector in and outside Zimbabwe to mobilise resources and re-invest in agriculture in Zimbabwe.
<p>Other key Aid for Trade programs in Africa include:</p> <ul style="list-style-type: none"> <li>• Australian Scholarships program in Africa, Australia is committed to scaling up the scholarships program to provide 10,000 long and short-term awards per year by 2012-13. This expansion is well underway with more than 250 scholarships being offered in 2010. A total of eight (8) trade related scholarships were awarded [in 2009 and 2010 and scope exists to further promote this as a means for countries to build human resource capacity in trade related policy/programs.</li> </ul>		
<b>Multilateral</b>		
<p>Key multilateral programs (not affiliated with any particular regional or bilateral program) include:</p> <ul style="list-style-type: none"> <li>• Contribution to the WTO Global Trust Fund. The GTF finances trade-related technical assistance that improves the ability of developing countries to participate in the Doha Round of multilateral trade negotiations. AusAID will likely make further payments in 2009 and future years.</li> <li>• Contribution to the WTO Standards and Trade Development Facility (STDF) which is designed to assist developing countries in addressing sanitary and phytosanitary (SPS) issues. The STDF aims to (1) raise awareness of the importance of SPS issues; (2) increase coordination in the provision of SPS-related assistance; and (3) mobilise resources to assist developing countries enhance their capacity to meet SPS standards.</li> <li>• Contribution to the Advisory Centre on WTO Law (ACWL) which provides of expert legal advice on WTO rights and obligations, assistance with dispute settlement cases to qualified developing countries and undertakes capacity-building work in respect of legal rights and obligations in the WTO system.</li> <li>• Extractive Industries Transparency Initiative (EITI) - Australia is contributing to EITI through a World Bank-managed multi-donor trust fund. EITI supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. Much of EITI's work to date has been in Africa.</li> </ul>		

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