

2.0 ECONOMIC OVERVIEW

Australia has a prosperous Western-style capitalist economy, with a per capita GDP on par with the four dominant West European economies. The Australian economy has been resilient in the face of the global economic downturn in 2001 chalking up 2.3% GDP growth, as the domestic economy is offsetting the external slump and business and consumer confidence remains robust. Canberra's emphasis on reforms is a key factor behind the economy's strength, and Australia is expected to outperform its trading partners in 2002, with GDP growth projected to be 3% or better.

2.1 Key Economic Indicators

2.1:1 GNP: US \$ 380,600 M (2001)

2.1:2 GNP growth rate: N/A for 2001

2.1:3 GNP per capita: N/A for 2001

2.1:4 GDP: (All figures in millions of U.S. Dollars)

Year	Value
2000	370,840
2001	338,137
2002(p)	386,759

2.1:5 Sectors shares as percentages of GDP:

Agriculture: 3%

Industry: 25%

Services: 72% (2000 est.)

2.1:6 GDP growth rate: Percent changes are calculated using Australian dollars

Year	Percent
2000	3.1
2001	2.6
2002(p)	4.0

Government spending as a % of GDP

Year	Percent
2000	25.5
2001	24.4
2002(p)	22.7

2.1:7 GDP per capita: (All figures in U.S. Dollars)

Year	Value
2000	19,355
2001	17,445
2002(p)	19,486

2.1:8 Gross domestic investment: N/A for 2002

2.1:9 Domestic savings: N/A for 2002

2.1:10 National savings: N/A for 2002

2.1:11 Balance of payment:

Australia generally runs an even balance or small deficit for trade in services. Tourism accounts for nearly half of services exports, while services imports are dominated by transportation services and outbound tourism. In 2001, Australia recorded net services deficit of just under US\$0.6 billion.

The current account deficit (CAD) in 2001 was just over US\$9 billion, and a 14 % decline on the deficit recorded in 1999/2000 or just under three percent of GDP.

A combination of lower exports to Asia and strong domestic demand for imports generated a major increase in the CAD. As exports improved over 2000 and early 2001, partly due to the favorable exchange rate, Australia's CAD fell. The government forecasts the CAD to widen over the coming year, as strong domestic demand, driven by the import-intensive business investment sector, is likely to affect the trade balance.

In terms of the Commonwealth's fiscal outlook, the fiscal balance, in accrual terms, is expected to be in a deficit of A\$3.1 billion (-0.4% of GDP) in 2001/2002

while in cash terms, an underlying surplus of A\$ 0.5 billion (0.1% of GDP) is forecasted.

2.1:12 Exchange rates:

Units of foreign currency per A\$

Currency	05 Feb 2004
United States dollar	0.7610
Japanese yen	80.32
Euro	0.6073
South Korean won	888.24
New Zealand dollar	1.1175
Chinese renminbi	6.2989
UK pound sterling	0.4156
Taiwan dollar	25.33
Singapore dollar	1.2888
Indonesian rupiah	6437
Hong Kong dollar	5.9168
Malaysian ringgitt	2.8918
Swiss franc	0.9524
Special Drawing Right	0.5103
Sri Lankan Rupee	70.50

2.1:13 Interest rates: Interest rates are relatively low with compared with other developed countries.

2.1:14 Inflation: (consumer prices) 4.3% (2001 est.)

Year	Inflation
2000	5.8
2001	3.1
2002(p)	3.0

2.1:15 Total external debts

The net income deficit remains the largest component of Australia's current account. In 2001, the net income deficit was just below US\$11 billion, consisting mostly of debt service payments on Australia's private foreign debt. While Australia's debt-service ratio is currently low (around 9.5 percent), any increase in foreign interest rates or further depreciation of the Australian dollar could greatly increase Australia's debt burden (as in 1990). **Net foreign debt at year-end 2001 was US\$169 billion.**

2.1:16 Debt service ratio

Year	Ratio
2000	9.6
2001	9.4
2002(p)	9.5

2.1:17 Employment

Labor force: 9.2 million (December 2001)

Labor force - by occupation: services 73%, industry 22%, agriculture 5%
(1998 est.)

Unemployment rate:

Year	Rate
2000	6.4
2001	6.7
2002(p)	6.0

(p) projection

Sources: Australian Bureau of Statistics, Federal Budget Statement 2002-03, and the Reserve Bank of Australia.

2.2 Economic Affairs

2.2:1 Major agriculture sectors:

Agricultural Resources

The Australian agricultural sector has experienced three consecutive years of significant growth. Despite turmoil in several key markets, the sector as a whole has benefited from the lower value of the Australian dollar and generally above-average

seasonal conditions. More recently, though, drier than average seasonal conditions and a higher dollar have threatened continued growth.

Despite mixed weather conditions, winter crop production in 2001-02 reached a near record 37.3 MMT (million metric tons). However, drier weather conditions are expected to result in lower production for 2002-03.

Live cattle exports increased for the fifth consecutive year and are projected to continue increasing over the near term. Drier than average seasonal conditions in more recent times have increased turnoff of beef cattle (the number of cattle leaving the farm), resulting in higher levels of live exports for 2001-02. While climactic conditions have provided increased pressure to slaughter **beef cattle** in the short term, significant increases in exports for 2002-03 are likely to be constrained by poorer export prospects. Quota limitations in the U.S., Australia's largest export market, combined with lower exports to Japan, Australia's second largest market, are expected to limit beef exports for 2001-02 and 2002-03.

After a decade of decline, the recovery of the **wool** industry has continued with prices estimated to be five percent higher in 2001-02. The continued decline in **sheep** numbers and the relative increase in the cost of competing fabrics have combined to increase returns to woolgrowers.

Prices received by **wine grape** producers fell in 2001-02 for the second year in a row and are not expected to strengthen in 2002-03 due to higher production and higher stocks. However, increased production is expected to drive a steady increase in wine exports for 2001-02 and will be constrained only partially by a stronger Australian dollar.

Despite low commodity prices, **sugar** production and exports increased in 2001-02 due to improved seasonal conditions. **Cotton** is also suffering from historically low prices and this, combined with dryer than average weather conditions, has reduced production and exports for 2001-02.

2.2:2 Major industry sectors: mining, industrial and transportation equipment, food processing, chemicals, steel

Principal growth sectors

1. Energy Resources

The total energy consumption has been declined in over the past two decades to 1.4 percent and it is projected to grow. The Australian energy utilities market is worth US\$40 billion.

The **fuel mix** is projected to continue to be dominated by petroleum products. These products are forecast to account for 48 percent of the increase in total final energy consumption. Consumption of **natural gas** is projected to increase three percent a year. **This growth in gas use is closely linked to development in the iron, steel, aluminum and basic nonferrous metals sectors** and to a regulatory environment more conducive to developing new pipelines in some states.

Total direct reduced **iron** (DRI) production in Australia is projected to reach 7 million tons by 2019-20. The DRI production process is particularly gas-intensive. This positive outlook for DRI underpins a forecast of 8.4 percent a year growth in gas use in the iron and steel sector.

Gas consumption in the **nonferrous metals sector** is projected to grow by 2.3 percent a year, reflecting major additions to Australia's **aluminum** refining capacity as well as the emergence of an Australian **magnesium** industry. Modest expansion to the aluminum facilities should see this sector accounting for 18 percent of the increased consumption of electricity.

The projected growth in energy use in the transport sector is expected to be 2.3 percent a year. This sector is expected to account for 41 percent of the total increase in final energy consumption. Almost all **transport fuel is petroleum** product (97 percent) and is a principal factor in the total increase in final consumption of petroleum. Sixty-five percent of the transport sector is accounted by passenger motor vehicles, with other road transport (mainly freight) taking the remainder. Fuel mix is **diesel oil and LPG**. Energy efficiency is assumed to be marginally higher in freight transport. Gas is only used in urban transport.

Gross generation of electricity in Australia will increase to 254,000 gigawatt hours by the year 2010 in total, or 55 percent of existing and new generating capacity. **Black coal-fired electricity** is forecast to account for 48 percent of this increase.

Additional production of black coal has been committed to supply approximately 2,280 megawatts of new capacity in the short to medium term.

Generation from **natural gas** is forecast to grow by 4.9 percent over the next ten years, accounting for 31 percent of the total increase in electricity generation.

2. Value Added Processing, Manufacturing

The manufacturing industry is an important sector of the Australian economy, contributing about 13 percent of Australia's gross domestic product (GDP) and total employment. However, the industry's share of GDP has continued to fall over the last 20 years reflecting the growth of the services sector. Manufacturing output fell by 0.3 percent in 2001 and is expected to achieve low to moderate growth rates for 2002. The flow on effects of a growing construction sector and strong consumer demand are seen as contributing factors to this growth.

According to the Australian Bureau of Statistics, **food and beverage** manufacturing holds the largest share (22 percent) of total manufacturing sales. Other significant contributors to sales are **machinery and equipment** manufacturing (20 percent), **metal product** manufacturing (18 percent) and **petroleum, coal, chemical and associated product manufacturing** (16 percent).

3. High-Tech Industry

Australia has a high level of sophistication and buying power to use high-tech products in a number of industry sectors. High-tech products are used in industries as diverse as **medical/ health services, communications networks, information technology (IT), security and defense**. Although Australia has its own small, but vigorous, high-tech industry, particularly in the fields of information and medical technologies, the U.S. is seen as a world leader for many high-tech products, and Australia normally looks first to the U.S. for purchases and new technologies.

Australians are keen to maintain a leading technological edge and are continually updating their technology to avoid obsolescence. **This means that Australian firms are often open to capital investment, joint ventures and other strategic alliances, both to capture a larger share of the Australian market and to gain a**

competitive advantage in developing products for export to other markets, particularly in the Asia-Pacific region.

Australia is among the most **mature IT markets** in the Asia Pacific. Twenty international IT firms, of which 18 are American, have chosen Australia as their regional headquarters. Their choice is based on the technical sophistication of the Australian IT market and the ease of market penetration. Australia is one of the top five countries in terms of per capita use of PCs in the world. It is also one of the top ten countries in terms of per capita use of the Internet. Australia provides a relatively small, but highly active and attractive market for high-tech products from the U.S.

4. Services

Over the past twenty years, Australia has experienced unprecedented growth in the services sector. The importance of the services sector to the overall Australian economy has increased significantly. The sector now constitutes the largest proportion of the Australian economy in terms of both output and employment. Four out of every five Australian workers (82 percent) are employed in an estimated 1.1 million Australian service businesses. Services are the fastest growing component of the economy -- outpacing agriculture, mining, manufacturing, and construction -- and account for around 68 percent of the country's gross domestic product (GDP).

Despite strong growth in the domestic service section, the demand for services in Australia is so great, that a substantial portion is met by overseas firms. Although Australia obtained a surplus in services for the first time in the 1996-97 fiscal year, the Asian financial and economic crisis forced Australian services trade back into a deficit position.

A trend common to a number of sectors has been the increasing use of outsourcing. Outsourcing has been identified as the single biggest driving force behind the growth of a number of key service areas in Australia, including **business services, finance, property management services, health, education, hospitality, recreation, and tourism.**

The strongest performer in the Australian service sector has been **communications services**, which has averaged a growth rate of 10 percent per year over the last five years. In contrast, the electricity, gas and water utilities sector has been one of the slowest growing service sectors, averaging a growth rate of 0.6 percent per year over the same period. However, the relatively slow growth in this area can in part be attributed to improved productivity resulting from corporatization and privatization. Opportunities are, therefore, being created for new players to participate as this sector opens up.

The U.S. Commercial Service in Australia has identified the following service sectors to be of particular significance, although not necessarily in order of importance:

1. Information Technology (IT) Services
2. Telecommunications Services
3. Mining Services
4. Direct Marketing
5. Franchising
6. Travel and Tourism Services
7. Energy Efficiency Services
8. Healthcare Services
9. Environmental Engineering Services
10. Management Consulting Services

2.2:3 Trade:

Australia's 2002 trade performance

It was a challenging year for Australian trade in 2002. Strong domestic demand and business confidence increased propensity to import, particularly in those items that would invest in the future growth of the Australian economy. At the same time, the weaker economic conditions in major trading partners apparent since early 2001 had a greater impact on export earnings, mainly through lower commodity prices. Other factors, such as the severe drought, the appreciation of the Australian dollar

and concerns over global terrorism, also had an impact on trade performance towards the end of 2002.

The medium-term prospects for stronger world growth and a return to normal seasonal conditions in Australia following the drought should lead to an improvement in trade performance.

Australia's Trade Policy

The Australian Government's integrated trade policy has as its main goal the creation of new and more open markets for exports to contribute to the growth in Australia's economy, employment and standard of living.

This goal is pursued at every level:

- **Multilaterally** through the [World Trade Organization \(WTO\)](#) by negotiating trade agreements which provide the legal ground-rules for international trade
- **Regionally** through [Asia Pacific Economic Cooperation \(APEC\)](#) and other [international fora](#) by strengthening regional trade links and pursuing common trade and economic goals
- **Bilaterally** through
 - [free trade negotiations](#), such as with [Singapore](#), [Thailand](#) and the [United States](#) that deliver substantial gains to Australia and which cannot be achieved in a similar timeframe elsewhere
 - efforts to [expand markets and address market barriers](#) in a range of [countries](#) and [sectors](#)

2.2:4 Tourism

Tourism plays a key role in the Australian economy, employing six percent of Australia's workforce and accounting for 4.7 percent of Australia's gross domestic product (GDP). Tourism is a major export earner, exceeding the earnings of more traditional export commodities such as coal, meat and wool.

Over the last decade, the number of international visitors to Australia has more than doubled. In 2001, the number of international visitors totaled 4.8 million, representing a 2.6 percent decrease compared to 2000, mainly as a result of the events of September 11. The major source countries of visitor arrivals to Australia were NE & SE Asia (27 percent), Europe (25 percent), New Zealand (15 percent), Japan (14 percent) and the Americas (12 percent).

In 2002, the inbound tourism market will struggle to reach a forecast 4.7 percent increase in arrivals. This is due to both the after-effects of the September 11 attacks and the collapse of Australia's second largest airline, Ansett Australia, which took place a few days later. These events of 2001 are likely to impact the Australian tourism sector for the next few years. The changing consumer travel trends and the decline in air services within and to Australia will continue to challenge the tourism industry for the remainder of 2002.

Nevertheless, the latest forecast of inbound visitor numbers produced by the Australian Tourism Commission predicts a long-term increase of visitors to Australia at an average annual rate of approximately 7.5 percent to 2010. With the expected growth in visitor numbers, tourism export earnings are forecast to increase at an average annual rate of 6.7 percent over the next nine years, from US\$9.6 billion in 2001-02 to US\$19.6 billion in 2011-2012.

Australia is a leading international convention destination and is ranked fourth in the world for the number of international conventions and business meetings it hosts each year. High-yield business tourism is a mainstay of the Australian tourism industry. Approximately 57 percent of convention delegates to Australia undertake pre-or post-conference touring around Australia. Although there has not been as strong a growth in the leisure travel market in the first half of 2002, the corporate business market has rebounded strongly.

Despite the long distance, the U.S. is the second most popular destination for Australian travelers, ranking just behind New Zealand. This upward move comes in the face of September 11 but indicates the strength of Australia's business, cultural and family links to the U.S., and a general desire to travel and see the world. Australians generally stay longer and spend more, making their impact on U.S. tourism even more important.

Australia-Sri Lanka relationship

Tourist arrivals from Australia have continued to show an upward trend over the past few years. Tourist arrivals, which stood at 7,088 in 1990, improved steadily to 10,806 in 1997 and in 1999 showed a substantial increase to 13,218 which is 28%. But the tourism sector suffered a major setback in July 2001 due to the attack at the Katunayake International Airport. Many countries issued travel advisories during this period. Tourist arrivals from almost all-major regions declined during the second half of the year 2001.

It has been projected that the resumption of direct flights thrice a week to Australia by Sri Lankan Airlines should increase this number substantially. It would be necessary for other organizations related to tourism in Sri Lanka also to make a concerted effort to attract as many Australian tourists as possible.

Tourist Arrivals from Australia to Sri Lanka

Category	1999	Occupation	1999
Sex – Male	7683	Businessmen	1038
Female	5535	Professionals	873
Age Group	1999	Executives	1395
3-19	1962	Scientists	777
20-29	3873	Educationists	540
30-39	3819	Other Occupations	4371
40-49	1905	No Occupation	3411
50-59	459	Retired Persons	813
60 & Over	1200		

(By Country of Residence)

Category	1999
Country of Nationality	13,284
Country of Residence	13,218

Purpose of Visit	1999
Pleasure	10,590
Private & official Business	108
Visiting Friends & Relations	2,160
Religious & Cultural	81
Others	279

2.2:5 Investment

- openness to foreign investment

The Australian Government generally welcomes foreign investment, and the United States is the country's largest source of foreign capital. Total U.S. investment in Australia, including both direct and portfolio investment, was about US\$125 billion in 2001. This accounted for over a quarter of total foreign investment in Australia. Australia's foreign investment policy, as laid out in its general investment guidelines of June 2001, is:

"to encourage foreign investment consistent with community interests. In recognition of the contribution that foreign investment has made and continues to make to the development of Australia, the general stance of policy is to welcome foreign investment. Foreign investment provides scope for higher rates of economic activity and employment than could be achieved from domestic levels of savings. Foreign direct investment also provides access to new technology, management skills and overseas markets."

Takeovers of domestic firms by foreign investors, while sometimes generating nationalistic public reaction, are generally not interfered with, and are treated under the same guidelines as any other investment. However, in recent years, there has been increasing public and media interest in foreign investment proposals. Private foreign investment decisions are left to the discretion of private sector firms. There are no prohibitions on overseas investment or capital repatriation.

2.2:6 Investment policies

a. The Foreign Investment Review Board

The Federal Department of Treasury regulates foreign investment with the assistance of the Foreign Investment Review Board (FIRB). The Board screens investment proposals for conformity with Australian law and policy. Regulation of foreign investment is based on the Foreign Acquisitions and Takeovers Act, (FATA) 1975 (amended in 1989), and regulations issued pursuant to the Act in 1991 and 1999. A full statement of Australia's foreign investment policy can be found at:

The investment screening mechanism administered by the FIRB tracks foreign investment developments through a notification system. If certain criteria are present, specific proposals are examined. The FIRB must be notified of investment proposals in the following categories:

- acquisitions of substantial interests (15 percent by a single foreigner and 40 percent in aggregate) in existing Australian businesses with total assets over A\$50 million;
- plans to establish new businesses involving a total investment of over A\$10 million or more;
- portfolio investments in the media of five percent or more, and all non-portfolio investments irrespective of size;
- takeovers of offshore companies whose Australian subsidiaries are valued at A\$50 million or more, or account for more than 50 percent of the target company's global assets;
- direct investments by foreign governments or their agencies, irrespective of size;
- acquisitions of interests in urban land that involve:
 - developed non-residential commercial real estate, where the property is valued at A\$50 million or more (A\$5 million if subject to a heritage listing);
 - accommodation facilities regardless of value;
 - vacant urban real estate regardless of value;
 - residential real estate regardless of value (unless exempt under the regulations); and
- Proposals where any doubt exist as to whether they are noticed.

The FIRB uses a national interest test to examine foreign investment proposals. Proposals are evaluated according to their consistency with existing government policy and law, where these are taken to define important aspects of national interest (for example, competition policy and environmental laws). Also, national security interests and economic development priorities are considered. However, it is the Federal Treasurer, under the authority of the FATA, who ultimately decides whether or not an investment is contrary to the national interest.

During FY 2001 (year ending June 30, 2001), 3,665 proposals for investment in Australia were considered by the FIRB: 3,301 were approved (2,298 with conditions) and 46 rejected, with the remainder withdrawn. Over 2,200 of the conditional approvals were in the real estate sector. Conditions related to the period during which the development should commence, the need for temporary residents to sell established properties when they cease to reside in Australia, or the imposition of reporting requirements on "off the plan" sales.

The value of total approvals in 2001 was A\$106.3 billion, a 36 percent increase on the previous year. The 100 largest proposals accounted for around 85 percent of the total. The value of total rejections was A\$9.7 billion, almost all of which was accounted for by the rejection of the proposed acquisition of a controlling stake in Woodside Petroleum Limited by Shell Australia Investments Limited in April 2001. The U.S. remained the largest source of proposed foreign investment in Australia during 2000-01, accounting for around 45 percent of the total. The U.S. has objected to the continued utilization of this screening mechanism with its relatively broad national interest test.

b. Sector-Specific Regulation

i. Media. The Broadcasting Services Act of 1992 provides that a foreign person may not exercise control of a television license, or have company interests in such a license. Foreign investment in mass circulation newspapers is also limited.

ii. Civil Aviation. Under legislation enacted in April 2000, foreign investors, including foreign airlines, may now acquire up to 49 percent of the equity in an Australian international airline

iii. Urban Real Estate.

All proposals by foreign investors to acquire developed residential real estate are examined. More information on FIRB regulations can be obtained from the Board's web site at: www.firb.gov.au

c. Incentives for Investment

Like the U.S., Australia provides no direct federal tax incentives for investment in the country. Incentives that are available apply equally to foreign and domestic investors. Examples include:

- research and development tax concessions for companies incorporated in Australia;
- the broader "R&D Start" program (which has temporarily suspended due to a blowout in spending). This program provides grants and loans to businesses to develop goods and services with significant commercial/export potential;
- the National Procurement Development program, which provides grants to underwrite the development of Australian products that are required by the public sector and have export potential, and;
- the Pharmaceuticals Industry Investment Program, which aims to stimulate research and investment in pharmaceutical activity. The scheme offers partial compensation from the price-depressing effects of the government's position as sole buyer of pharmaceutical products under the Pharmaceutical Benefits Scheme.

Hundreds of major foreign firms invest in Australia across a variety of sectors. The Australian State Governments vigorously encourage investment by offering incentives to multinationals to set up regional headquarters for financial and other services, as well as manufacturing operations. Aimed initially at attracting information technology companies, the campaign has widened in scope to include manufacturing and provision of financial and administrative services for the Asia-Pacific region. The Government touts the benefits of Australia's safe, stable business environment, skilled workforce, and lower facility site and operating costs in comparison to other regional centers, such as Singapore, Hong Kong and Taiwan.

"Invest Australia is the Australian Government's inward investment agency. It is an autonomous agency, managing a whole-of-nation strategy for investment, and actively fosters closer working partnerships with industry and other government agencies. It offers a comprehensive, free and totally confidential service for potential investors, providing all the information needed to establish or expand a business in Australia, such as details of alternative locations, joint venture partners, establishment costs, availability of labor, employee costs and skills, incentives, and taxation issues.

Invest Australia can also help by connecting potential investors with the right industry and government contacts, as well as providing information on investment regulations and Government programs."

2.2:7 Bi-lateral, multi lateral and regional agreements and arrangements

International organization participation:

ANZUS, APEC, ARF (dialogue partner), ASDB, ASEAN (dialogue partner), Australia Group, BIS, CCC, CP, EBRD, ESCAP, FAO, IAEA, IBRD, ICAO, ICC, ICFTU, ICRM, IDA, IEA, IFAD, IFC, IFRCs, IHO, ILO, IMF, IMO, Interpol, IOC, IOM, ISO, ITU, NAM (guest), NEA, NSG, OECD, OPCW, PCA, Sparteca, SPC, SPF, UN, UNCTAD, UNESCO, UNHCR, UNMEE, UNTAET, UNTSO, UNU, UPU, WFTU, WHO, WIPO, WMO, WTO, ZC

Membership in free trade arrangements

Australia is one of a small number of countries that does not have a free trade agreement with any of the major world economies or economic associations. The Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA - usually abbreviated as CER) came into effect in January 1983 and is the main instrument governing economic relations between the two countries. Now one of the most comprehensive bilateral free trade agreements, it prescribes that all bilateral trade and services originating in the two countries is free of tariffs, quantitative restrictions, anti-dumping measures, production subsidies and like measures.

In November 2000, the Australian Government announced that it would pursue a free trade agreement (FTA) with the United States. In September 2001, President Bush and Prime Minister Howard expressed their intent to study and discuss the contents of a proposed FTA. As of June 2002, the proposal is receiving high-level consideration in the U.S. and is pending Congressional passage of the Trade Promotion Authority for the President to Negotiate Free Trade Arrangements. Australia is currently negotiating a free trade agreement with Singapore and is also in talks with Thailand.

Australia is a key member of the Asia Pacific Economic Cooperation (APEC) forum, and plays a leading role in promoting trade liberalization. Approximately seventy percent of Australia's exports go to APEC economies. Australia, like all of its APEC partners, is committed to tariff reductions by 2010, the deadline for the group's developed countries.

Australia is also a member of the Cairns Group of 18 agricultural exporting countries. The Group was formed in 1986, and has put agriculture on the multilateral trade agenda. The Australian Minister for Trade chairs the Cairns Group annual ministerial meetings.

The Cairns Group's broad objectives for negotiations on agriculture focus on three key reform areas within the framework of agricultural trade: deep cuts to all tariffs and removal of tariff escalation, elimination of all trade-distorting domestic subsidies and the elimination of export subsidies, and clear rules to prevent circumvention of export subsidy commitments.

Free Trade Agreements

1. Singapore-Australia Free Trade Agreement (SAFTA)

On 17 February 2003, the Minister for Trade, Mark Vaile, and the Minister for Trade and Industry of Singapore, George Yeo, signed the Singapore-Australia Free Trade Agreement (SAFTA).

SAFTA is a wide-ranging and comprehensive agreement, covering tariff-free access for goods, improved market access for services (including specific commitments on sectoral markets for telecommunications, financial services and professional

services), and on cooperation and trade facilitation in key areas such as e-commerce, standards, education, intellectual property protection, competition policy and customs procedures.

SAFTA will assist Australian exporters through enhanced market opportunities and provide investors with greater certainty through provisions on the protection and promotion of investment. Cooperation arrangements in areas such as customs, standards, and e-commerce will facilitate commerce between the two countries.

2. Australia-Thailand Closer Economic Relations Free Trade Agreement (CER-FTA)

Prime Minister Howard and Thailand's Prime Minister Thaksin announced on 30 May 2002 that Australia and Thailand would begin negotiations towards a Closer Economic Relations Free Trade Agreement (CER-FTA). The agreement would be comprehensive in scope, covering liberalisation of trade in goods and services as well as cooperation in a broad range of areas that would encourage strengthened trade and investment linkages.

The FTA is Thailand's first FTA negotiation with a developed country, and Thailand sees the negotiations as assisting its efforts to launch FTA negotiations with the United States (and Japan). Thailand is also currently negotiating FTAs with China and India.

A core objective for Australia is to reduce and eliminate Thailand's relatively high tariffs (average around 15%) and non-tariff restrictions (particularly in agriculture). Thailand's priority areas of interest are its concerns with the functioning of Australia's quarantine regime and anti-dumping system.

Trade in goods

This is a priority area of the negotiations for Australia reflecting the fact that Thailand has an average tariff of around 15% and a number of other significant restrictions. Australia's objective is to secure an ambitious outcome in this area, one that is consistent with Article XXIV of the GATT and that addresses and advances Australia's commercial interests in the Thai market.

It is a comprehensive offer which provides for the immediate elimination of tariffs (conditional on a reciprocal offer by Thailand) on more than 90% of tariff lines.

Negotiations on rules of origin are focussed on valuation methodologies and verification procedures.

Australia is pressing for an outcome that improves the degree of transparency and predictability of the Thai services and investment regime and entrenches most-favoured-nation (MFN) treatment for Australian investors.

Australia has tabled text in the following areas which Thailand is considering: competition policy, intellectual property rights, e.commerce, dispute settlement, institutional provisions, transparency and customs procedures. Text on government procurement is being developed but has been delayed to take account of the outcome of reforms underway in the Thai procurement regime.

3. Australia-Japan Trade And Economic Consultations

Prime Minister Howard and Japanese Prime Minister Koizumi launched consultations in May last year to explore all options for deeper economic linkages.

The consultations will culminate in a report to Prime Ministers in the middle of the year which will recommend a way forward.

Australia's objective is to secure an outcome from the consultations that reflects the scale of the relationship and its enduring importance to both countries. Australia has registered its interest in negotiating a comprehensive free trade agreement (FTA) with Japan as the best option for strengthening economic links. Japanese officials have made it clear that Japan is not ready to enter into bilateral FTA negotiations at this point. Against this background, Australia is seeking an outcome which, while recognising that an FTA is not possible at the moment, positions Australia for FTA negotiations with Japan should circumstances change, and in the meantime puts in place measures to facilitate trade and investment.

In the consultations, Australian and Japanese officials have been discussing specific new cooperative activities or enhanced dialogue which could benefit business in a range of areas. These areas include: food, including food safety; energy; ICT and e-commerce; customs cooperation and paperless trading; recognition of professional qualifications, beginning with engineers; competition policy; financial services and investment promotion focusing in particular on new and emerging sectors.

4. Australia New Zealand Closer Economic Relations

In the early 1980s there were suggestions that a new free trade agreement was needed to govern trade relations between Australia and New Zealand. It was argued that 'an appropriately structured closer economic relationship would benefit the international competitiveness of both countries and improved living standards.'

The Closer Economic Relations Agreement between Australia and New Zealand entered into force in 1983. In a WTO review, CER was 'recognised as the world's most comprehensive, effective and multilaterally compatible free-trade agreement.'

The objectives of CER are to expand free trade by eliminating barriers to trade and promoting fair competition. The agreement assisted in building up momentum for

trade liberalisation. By 1990, five years ahead of schedule, all tariffs and quantitative restrictions had been removed from trans-Tasman goods trade.

Results have been impressive - total trade in goods has increased by more than 563% since 1983 to AUS\$11.3 billion in 1999. Two way investment between Australia and New Zealand has also increased from \$1.5 billion in 1983 to \$25 billion in 1998 - a rate of increase almost twice that for investment with the rest of the world.

2.2:8 Major development programmes, which give opportunities for Sri Lanka

Market sector

Like many sectors of Australia's business community, exporters have benefited considerably from Australia's wide economic structural reform agenda. Barriers to domestic competition have fallen, along with business input costs, in turn generating a more favorable commercial operating environment. Having recognized early the benefits of strong competition, Australia ranks increasingly highly as a successful global trader.

One of the most important factors behind greater efficiency in Australia's economy has been the sharp reduction in Australia's average tariff rates on imports. Australia's average applied tariff rate has halved in the last decade, contributing to lower business input costs and raising the efficiency of local producers.

International Aid program

The aim of the Australian aid program, which is administered by the Australian Agency for International Development (AusAID), is to assist developing countries to reduce poverty and achieve sustainable development. The primary focus is the Asia Pacific region but targeted assistance is also provided to South Asia, Africa and the Middle East. In 2002/03, Australia provided \$ 1.815 billion as official development assistance. Each year, the Australian Government's overseas aid program reaches more than 58 million people living in poverty, with more than 800 million people surviving on less than \$2 per day.

This includes support in the areas of governance (including economic institutions as well as peace and security measures), delivery of basic services (like education and health), infrastructure (for example, roads and bridges) and sustainable resource management (for example, water). In addition, the aid program provides substantial

humanitarian and emergency assistance and manages an extensive overseas student scholarship program.