

## Broaching the Long-term TCF Strategic Outlook

Each week I receive a number of calls from clients inquiring about APEC, and asking, didn't Australia commit to wholesale free trade in TCF products by 2010? Clients further query: What does that mean for our long-term strategic plan, and investments we intend to make in latter years of the TCF Strategic Investment Program?

Well, the answer is sort of yes - under the Asia Pacific Economic Cooperation agreement in 1985 Australia did make such a commitment. That undertaking - which gave our regional trading partners a further 10 years (out to 2010) to match Australia's tariff reductions - was used to underpin the Government's 1997 decision on current TCF industry assistance policy.

A lot of water (mainly cold!) has passed under the bridge since that time, however. With onset of the Asian economic crisis and the domestic instability that event has created in many Asian countries, there has been little enthusiasm by national leaders to take early decisions to reduce tariffs and other trade barriers in a way that might meet the APEC process.

What does this mean for Australia in the medium term?

It's not really that long before the Commonwealth Government will have to start thinking about the next, post-2005, review of long-term TCF assistance, which is meant to be determined by an industry review in 2004. The big question is whether this review will see government agreeing to maintain the current TCF tariff 'freeze' - say to 2010 - or whether current rates will be more immediately wound down, as per the original APEC agenda.

While much will depend on how far other countries have progressed in reducing their barriers to Australian exports, more recent developments in Australia's trading relationship with the United States - and potentially the greater geography of the Southern Americas - might radically change the whole TCF export (and import) outlook.

To provide TCF Services clients with an initial update in this important area of future business opportunity, this week's *'Advisor'* reviews bi-lateral and multi-lateral trade developments affecting the TCF industries, as background to a further series of articles we are developing on future directions in the international trade environment.

Gerry Frittmann  
Managing Director  
TCF Services Pty Ltd

**W**hen John Howard goes to Washington DC next week he will be seeking to break the log-jam that has been Australian trade policy since Bob Hawke's 1985 initiative, in Canberra, to launch a 25-year export growth horizon via the Asia Pacific Economic Co-operation (APEC) program.

Since that time - and torpedoed by former Prime Minister Keating's description of Malaysia's Dr Mahathir as a 'recalcitrant' - the trade vision that underpinned the Government's decision on long-term assistance to

Australia's textile, clothing and footwear (TCF) industries, has progressively come undone in the light of reluctance for freer trade in the aftermath of extended Asian economic recession.

Failure of the Clinton administration to show leadership in Seattle in 1999 - and to push the multi-lateral trade agenda - has also motivated many nations to push for a multiplicity of bilateral trade liberalisation initiatives, given the absence of a major push forward on the global fair trade front so jealously guarded by the World Trade Organisation (WTO).

## Europe and the US taking care of No.1

Whilst the European Union (EU) has pushed through currency integration in Europe and the United States is reaping the fruits of its 1992 free trade agreement (NAFTA) with Canada and Mexico, Australian trade policy has struggled to find direction against determined opposition from Dr Mahathir to keep Australia and its CER partner, New Zealand, out of new age Asian freer trade clubs (AFTA, ASEAN+3, etc).

New Zealand has since started to walk its own Asian trade path with the conclusion of a free trade agreement with Singapore, and is now talking to Hong Kong, hoping all along that the lower content deals (ie: >50%) associated with these agreements will not complicate the base 50% required under the Closer Economic Relations agreement. Australia itself, is only just getting around to studying the merits of a more liberal trading relationship with Thailand, following progress in negotiations with Singapore in recent months.

APEC meets again in Shanghai, in October. However, the biggest deal in immediate prospect is that of an all encompassing Free Trade Agreement with the United States, which John Howard desperately needs to underpin public perceptions he is a man of both vision, and action.

In essence, because we are viewed as a staunch ally - one that has fallen solidly behind the US on Asia/Pacific security issues - there is an increasingly popular view in Washington that Australia should be rewarded as one of the first countries set in line for a break on trade policy by the new Bush administration.

## Pro's and Con's of Free Trade with the US

The deal with the US, however, opens up as many problems as it does opportunities for Australia's challenged TCF industries. Our long-maintained systems of restriction via excluded goods schedules, restrictive concessions, sourcing and content rules will need to be progressively undone if garment exporters are to get more favourable tariff access to the US, given quotas don't currently apply to majority Australian-made goods.

In return, Australia's TCF industries might expect some across-the-board 'reverse Howe Leather' deals. Access to NAFTA is likely to see the emergence of large flows of goods from new sources of competition, initially based on US textiles and leather shipped to Mexico, and then manufactured into branded finished goods costed on cheap labour rates for on-export to Australia.

In the longer term, and as the US seeks to counter aggregation in Europe by expanding its sphere of NAFTA trade influence into the Mercosur nations of South America, the flow of cheap TCF products based on US textiles could wreak even more havoc on those remaining Australian textile and garment manufacturers than did the rapid emergence of China as a major import source in the early 1990s.

## China's Impact Within the WTO

With China also now coming to the end of an extended 15-year process of accession to the WTO, the next big round of multi-lateral trade negotiations - scheduled to start (November) in Qatar - will for the first time feel the impact of the emergent Asian giant, now getting used to flexing its muscles following the US EP-3 'spy plane' affair, and the detracted return of crew and aircraft only just completed.

Once China joins the WTO, importing countries which are also members of the WTO will have to adhere in their treatment of China to the Most Favoured Nation/non-discrimination principles. In the United State's case, this means evaporation of the ability to use quantitative restrictions to limit imports from 2005 and beyond. Let's assume for the moment this happens.

Potentially, Australia's import volumes might then become too small for expanded Chinese production runs targeting the USA. This 'diversion' effect might progressively open up more of the available Australian market to other suppliers, given we have gone further than most in unilaterally liberalising our own TCF markets. NAFTA would then have a real opportunity to come fully into play.

## Looking to the future

Where does this all leave Australia? To the extent that the WTO in November starts to deliver a fundamental advance on multilateral trade liberalisation, the enthusiasm for multitudinous bilateral trade deals might wane as more sensible nations and local Customs brokers start to untangle the 'spaghetti' of new regulations and trade rules emerging from these one-on-one deals.

In the mean time, Prime Minister Howard will be making the most of the political fillip a White House Lawns NAFTA declaration - to begin the process of exploring a free trade relationship - will give him in the upcoming election campaign.

Whatever, the global trading environment for TCF companies is now being set for some more immediate changes well before we reach the magical 2010 scenario envisaged in Canberra back in 1985, at the first APEC meeting.

## REFERENCES

Link to the AusIndustry TCF-SIP Web site:

<http://www.isr.gov.au/documents/dir8/doc506208.html>

The Textiles, Clothing & Footwear Industry Advisor (C) 2001 [Co-Operative Ventures (Australia) Pty Ltd] brings you the latest facts, analysis and contacts regarding Australia's TCF industries and related Government support programs.

The Newsletter is published on a regular basis for **TCF SERVICES PTY LTD** [ABN 88 053 245 926], PO Box 141, Surry Hills NSW 2010. Tel: +61 2 9310-2900/Fax: +61 2 9319-3670.  
Correspondence should be addressed to the Editor.

Reproduction in whole or in part is not permitted without permission in writing from the publishers.