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From strangers to partners in the hemisphere: New Prospects in Australia's Economic Relations with Latin America

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Abstract

From marginal relevance, the trade and business relations between Australia and Latin America have grown during the past two decades. A proximate reason is that they diversified to encompass a greater range of manufactures and services. Differences in the business environments of Australia and Latin America remain that are obstacles to further expansion of these relations. The ultimate reason for the growth and diversification of these relations is that Australia and its key business partners in Latin America (Argentina, Brazil, Chile and Mexico) experienced the impact of processes of trade liberalisation, market deregulation and structural reform during the past two decades. Australia and these Latin American countries now share common interests in fostering business relations, for which there are opportunities at multilateral, plurilateral and bilateral levels.

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From strangers to partners in the hemisphere:
New Prospects in Australia's Economic Relations with Latin America

1. Introduction

Forty years ago, Australian historian Glen Barclay (1969) concluded that Australia and Latin America were 'strangers in the hemisphere', as their political and business relations had been and continued to be truly marginal.[1] Despite being situated in the Pacific Rim – the most dynamic part of the global economy – trade and investment flows remained relatively marginal for another 20 years. The main reason was a lack of economic complementarity, as Australia and key Latin American countries were competitive exporters of primary products. They still are, but this paper will demonstrate that trade and investment flows between both continents have grown significantly in recent years, before explaining why this was the case.

Section 2 establishes the orders of magnitude of change in the business relations. It demonstrates that the inter-continental trade flows have grown and diversified away from basic commodities. Section 3 examines remaining differences in the business environments of Australia and the countries of Latin America that may help to explain why Australia's business relationships across the Pacific still hold a lot of promise.

Section 4 argues that several preconditions for the growth of Australia's business relations with Latin America were a result of the fundamental processes of trade liberalisation, market de-regulation and structural reform since the 1980s. These economic and trade policy reforms have greatly expanded the range of interests that Australia and the countries of Latin America share in the international trade policy which also enhances the scope for closer business relations.

Section 5 of this paper examines the scope to realise the remaining opportunities for building a closer trade and business partnership between Australia and Latin American countries. It probes the increased scope for pursuing shared trade policy objectives in the World Trade Organisation (WTO), as well as the opportunities for closer cooperation through new and important regional, plurilateral and bilateral initiatives.

2. Recent trends: An expanding relationship

Trends in bilateral business relations between Latin America and Australia may be captured with statistics on trade and investment. Table 1 shows 5-year averages in order to abstract from year-to-year fluctuations. The balance of goods trade has shifted in favour of Latin America during the past 10 years, as Australia's imports exceed exports. The balance of services trade has shifted in Australia's favour over the last 5 years, but the margin is small. The table also shows that the trade relations grew significantly by a factor of four in the case of goods during the past 20 years. This rate of growth exceeded that of Australia's trade with the rest of the world, and Latin America's share in Australia's exports and imports increased to respectively 1.5% and 1.8%. During the past 10 years, Australia's services exports to Latin America increased by a factor of 2.5, higher than goods exports that increased by a factor of 1.7. This indicates that Australia's business relations with Latin America are accommodating services to a greater degree.

[1] Latin America is broadly defined to comprise South and Central America, including the Caribbean.

Nevertheless, shares of 2% or less in Table 1 indicates that Latin America is in relative terms still of lesser importance to Australia's foreign trade relations than other parts of the world, particularly the European Union, East Asia and North America.

Table 1: Australia - Latin America Trade Relations, 1990-2009 (annual averages)

	Australian Exports to Latin America				Australian Imports from Latin America			
	Goods		Services		Goods		Services	
	(mln A$)	% of total	(mln A$)	% of total	(mln A$)	% of total	(mln A$)	% of total
1990-94	655	1.1%	na	-	829	1.5%	na	-
1995-99	1,060	1.3%	na	-	1,061	1.2%	na	-
2000-04	1,473	1.3%	365	1.0%	1,732	1.4%	472	1.4%
2005-09	2,607	1.5%	928	2.0%	3,344	1.8%	743	1.5%

Note: na = not available.

Sources: Calculated from ABS 5368.0 and ABS 5368.055.004.

Table 2 shows that 80 to 85% of Australia's trade with Latin America is with Brazil, Mexico, Chile and Argentina. These are the continent's three most populous countries, while Chile is geographically closest to Australia and also has the most open economy. Puerto Rico has a role in Australia's imports from Latin America, largely due to the imports of products from that country's prominent pharmaceutical industry.

Table 2: Australia's Main Trade Partners in Latin America, 2005-09 (annual averages)

	Australia's Goods Exports			Australia's Goods Imports	
	(mln A$)	% of total		(mln A$)	% of total
Brazil	1,021	39.2%	Mexico	1,119	33.5%
Mexico	771	29.6%	Brazil	873	26.1%
Chile	236	9.1%	Chile	387	11.6%
Argentina	188	7.2%	Puerto Rico	387	11.6%
Peru	92	3.5%	Argentina	273	8.2%
Colombia	36	1.4%	Peru	99	3.0%
Trinidad & Tobago	31	1.2%	Costa Rica	69	2.1%
Costa Rica	30	1.2%	Colombia	28	0.8%
El Salvador	26	1.0%	Dominican Rep.	19	0.6%
Jamaica	25	1.0%	Uruguay	17	0.5%
Guatemala	25	1.0%	Ecuador	12	0.4%
Other	126	4.8%	Other	61	1.8%
Total	2,607	100%	Total	3,344	100%

Source: Calculated from ABS 5368.0.

Table 3: Shares of Product Groups in Australia's Goods Trade with Latin America, 2005-09 annual averages

		Australia's exports to					Australia's imports from				
SITC Rev.3 category		Argen-tina	Brazil	Chile	Mexi-co	Ave-rage	Argen-tina	Brazil	Chile	Mexi-co	Ave-rage
0	Food and live animals	0.4%	0.6%	7.3%	9.9%	4.6%	36.9%	20.3%	9.1%	1.7%	17.0%
1	Beverages and tobacco	0.0%	0.1%	0.0%	0.2%	0.1%	0.9%	3.1%	1.1%	6.1%	2.8%
2	Crude materials, inedible, except fuels	23.1%	0.8%	1.9%	6.3%	8.0%	4.4%	10.4%	22.8%	0.4%	9.5%
3	Mineral fuels, lubricants and related materials	57.6%	77.9%	47.3%	43.4%	56.6%	0.0%	0.0%	0.0%	0.0%	0.0%
4	Animal and vegetable oils, fats and waxes	0.0%	0.3%	0.0%	0.0%	0.1%	12.8%	1.2%	0.1%	0.0%	3.5%
5	Chemicals and related products, n.e.s.	5.8%	5.7%	6.8%	5.5%	5.9%	9.3%	5.8%	6.1%	5.6%	6.7%
6	Manufactured goods classified chiefly by material	1.5%	5.0%	7.7%	7.0%	5.3%	15.3%	16.8%	57.7%	8.7%	24.6%
7	Machinery and transport equipment	9.3%	7.2%	22.4%	21.4%	15.1%	18.3%	36.8%	2.7%	64.2%	30.5%
8	Miscellaneous manufactured articles	2.2%	2.2%	6.4%	2.6%	3.4%	1.8%	4.5%	0.4%	13.0%	4.9%
	Other and confidential items	0.0%	0.1%	0.0%	2.4%	0.6%	0.4%	1.2%	0.0%	0.2%	0.5%
	Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	Total value (mln US$)	151	819	188	609	1,767	220	697	315	898	2,130

Notes: Australia' export data include unidentified 'confidential items' and shares in Australia's exports are therefore based on partner country trade data. The averages are unweighted.
Source: Calculated from UN Comtrade database, http://comtrade.un.org.

Table 3 reveals that primary commodities (categories 0-3) dominate Australia's exports to Latin America, followed by a diverse range of machinery and mechanical appliances (category 7). Coal (category 3) features prominently in Australia's exports, even though all four Latin American countries are themselves coal producers. Australia's imports from Latin America are dominated by machinery and mechanical appliances, particularly in the case with Mexico.[2] A closer look reveals that this largely comprises internal combustion engines, car parts and cars, as well as personal computers, computer peripherals and communication equipment. The share of Brazil's exports of manufactured products to Australia is also high, particularly for transport equipment, due to the delivery of 20 Embrear aeroplanes to Virgin Blue in 2008. Australia also imports basic manufactured products from Latin America, particularly refined copper and copper products in the case of Chile (categories 2 and 6), as well as assorted food products (category 0).

Table 4 shows that on average the share of manufactures in Australia's imports rose from 56% in 1990-94 to 67% in 2005-09. The average share of manufactured products in Australia's exports increased marginally from 26 to 30%. Table 4 therefore reveals that manufactured products now play a greater role in Australia's trade with Latin America than 20 years ago. Australia's goods trade with Latin America has clearly diversified away from primary commodities.

Table 4: Share of Manufactures in Australia's Goods Trade with Latin America, 1990-94 and 2005-09 annual averages

	Argentina	Brazil	Chile	Mexico	Average
A. Australia's Exports					
1990-94	48.0%	8.0%	34.6%	14.8%	26.4%
2005-09	18.8%	20.1%	43.4%	36.4%	29.7%
B. Australia's Imports					
1990-94	45.3%	75.9%	22.8%	80.1%	56.0%
2005-09	44.6%	63.8%	66.8%	91.5%	66.7%

Notes: Manufactures are defined as SITC Rev.3 categories 5-8. Australia's export shares for 2005-09 are based on partner country trade data (see Table 3). The averages are unweighted.
Source: Calculated from UN Comtrade database, http://comtrade.un.org.

Australia's services exports to Latin America consist largely of travel-related services, particularly personal travel (tourism) and education-related services, which occupy 66%, as Table 5 shows. *Vice versa*, Australia's imports of services from Latin America are clearly dominated by unspecified business services, followed by tourism and transport. The source is too incomplete to allow specific disaggregation of services trade by countries of direction and origin. Except that over two-thirds of the large share of unspecified imported business services relates are imported from Central America and the Caribbean. It is likely that this is related to the significant portfolio and direct investment transactions between Australia and countries like the British Virgin Islands (see below).

Regarding services related to personal travel, short-term arrivals and departures between Australia and Latin America increased considerably. The share of citizens of

[2] Australian trade with Mexico may be understated by transit trade via the USA (JEG 2009: 49-50).

Latin American countries on short-term visits to Australia doubled from 0.5% of total visitors during 1991-94 to 1.0% during 2004-09, while the share of Australian residents visiting Latin American countries increased from 0.8% to 1.2% (calculated from ABS 3401.0). Such intercontinental visits are still marginal compared to visits between Australia and other continents, but they grew to the extent that Australia in 2009 hosted 67,000 short-term visitors from Latin America, particularly from Brazil, while 86,000 Australian residents visited Latin America, particularly Brazil, Argentina and Chile.

Table 5: Shares in Australia's Services Trade with Latin America, 2005-09 (annual averages)

	Australia's Services Exports			Australia's Services Imports	
	(mln A$)	% of total		(mln A$)	% of total
Travel, personal	331	35.7%	Business, n.e.s.	346	46.6%
Travel, education	282	30.4%	Travel, personal	166	22.3%
Business, n.e.s.	127	13.7%	Transport	117	15.7%
Transport	58	6.3%	Travel, other	48	6.5%
Travel, other	53	5.7%	Government	22	3.0%
ICT	29	3.1%	Intellectual property	21	2.8%
Financial	24	2.6%	Travel, education	10	1.3%
Intellectual property	6	0.6%	Financial	3	0.4%
Government	5	0.5%	ICT	8	1.1%
Construction	1	0.1%	Insurance, pensions	1	0.1%
Other	12	1.3%	Cultural, recreational	1	0.1%
Total	928	100.0%	Total	743	100.0%

Note: ICT refers to Information, Computer and Telecommunications services.
Source: Calculated from ABS 5368.055.004.

Table 6 shows the stock of Australian investment in Latin America and of investments from Latin America in Australia, as far as can be estimated.[3] From an Australian perspective, the accumulated investment flows to and from Latin America are small, as only 4% of Australian outward investment found its way to Latin America, which was the source of only 2% of foreign investment in Australia.

If it wasn't for the considerable amount of investment channelled through financial institutions and holding companies in Caribbean countries, FDI would have been smaller. The ultimate destinations of Australian investment were not other countries in Latin America, while Latin America was not the source of this investment in Australia. For example, in 2006 Telstra acquired 51% of SouFun Holdings for US$254 million, which is a Chinese company registered in the Cayman Islands.[4] Likewise, in 2008 CopperCo acquired 74% in Mineral Securities for $536 million, a British company registered in the Virgin Islands. *Vice versa*, Cheung Kong Infrastructure Holdings in Bermuda acquired 51% of Powercorp Australia in 2000 and 51% of CitiPower in 2002, on behalf of Cheung Kong Infrastructure and Hong Kong Electric Holdings, two companies in the Hong Kong-based Cheung Kong business group.

[3] The ABS does not publish details of investments for most Latin American countries for reasons of confidentiality, while the published data for Latin American countries in Table 7 are incomplete.
[4] Telstra divested its interest in SouFun Holdings for US$433 million in September 2010.

Table 6: Stock of Investment between Australia and Latin America, 2009 (mln A$)

	Australian foreign investment			Foreign investment in Australia		
	Direct	Portfolio	Total	Direct	Portfolio	Total
Argentina	*550*	*88*	638	*10*	*240*	*250*
Bermuda	4,572	5,020	9,592	4,041	2,515	6,556
Brazil	*1,000**	2,783	3,783	*1,586*	*100*	1,686
British Virgin Islands	*825*	*800*	1,625	*13,000*	*7,000*	*20,000*
Cayman Islands	1,538	5,303	6,841	*1,250*	*594*	1,844
Chile	*1,200*	*636*	1,836	na	na	na
Mexico	1,949	1,103	3,052	1	39	40
Total, these countries	11,634	15,733	27,367	19,888	10,488	30,376
As % of Australia total	3.4%	3.7%	3.5%	4.6%	1.0%	2.0%

* The source lists a stock of Australian outward FDI in Brazil of about A$15.9 billion, compared with A$1 billion in 2008, and around A$1 billion in the Brazilian statistics (BCB 2010). The flow of Australian FDI does not reveal such a significant increase to Brazil in 2009. The increase is therefore likely to be caused by changes in the FDI portfolio of Australian firms that brought interests in other countries under the control of their subsidiaries in Brazil.
Notes: na = not available. Numbers in italics are estimates. Total is for identified partner countries only.
Source: Estimated from ABS 5352.0

Two Australian Bureau of Statistics (ABS) publications confirm that Table 6 does not fully represent investment relations between Australia and Latin America. ABS (2004a) reveals that there was an insignificant presence of Latin American companies in Australia in 2000-01. This may have changed somewhat, but not drastically. Many Latin American firms have internationalised their operations to become the so-called ‘Multilatinas’ and more recently ‘Global Latinas’ (Casanova and Fraser 2009; Hatum and Michelini 2011), but most of them still have to find their way to Australia. ABS (2004b) shows that there were 39 Australia-owned affiliates in Brazil in 2002-03, 27 in Chile and 25 in Mexico, that altogether employed 6,300 people, plus another 22 firms in other Latin American countries (Van Ruth 2008: 13). Given considerable FDI inflows in Latin America’s booming mining sector, it is likely that the number of Australian firms in the continent increased significantly in recent years.

Table 7 shows company acquisitions between Australia and Latin America. The most prominent acquisition in Latin America was Nufarm’s purchase of Agripec in Brazil in 2007. Of greater significance was the acquisition of the Rinker group in Australia by Cemex of Mexico, and of coal-mining company AMCI Holdings by Brazil’s iron ore-mining Vale in 2007. Brazil’s JBS Friboi group gained control over meat packer Australia Meat Holdings, when it acquired its US parent firm Swift in 2007. Re-named Swift Australia, this JBS subsidiary purchased the Tatiara Meat Company in 2010.

Table 7 reveals that mining, mining services and utilities companies dominate the interests of Australian companies in Latin America. Several interests of Australian mining companies are not included for reasons explained below. For example, BHP Billiton has a 100% interest in the Cerro Colorado copper mine in Chile, joint venture (JV) interests in refining plants and coal and nickel mining in Brazil and Colombia, as well as in the Antemina copper and zinc mine in Peru. Several Australian mining supplies and service companies have followed in the wake of the mining companies. For example, Austin Engineering purchased Conymet in Chile in 2009 to produce dump truck bodies for mining ventures throughout South America. Several non-mining firms also found their way to Latin America. For example, Australia’s Pacific Hydro used its expertise in hydro and wind electricity to take advantage of privatisation in Chile’s energy sector to enter the market for hydro electricity investment in 2004, and to invest in wind electricity projects in Brazil. Packaging producer TNA established subsidiaries in Chile and Mexico. A number of Australian companies have also been attracted by the openness of the Chilean economy to choose it as their base in Latin America, such as the mining services and chemicals divisions of Orica.

Table 7 does not give a comprehensive overview of investments between Australia and Latin America for four reasons. (1) The value of deals is not always disclosed. For example, QBE’s acquisition of insurance firm Cumbre Seguros in Mexico and Ansell’s purchase of Blowtex in Brazil in 2007 are not included for that reason. (2) Systematic information on Greenfield investments is not readily available. For example, Agrichem’s establishment in 2000 of a fertiliser production and distribution JV in Brazil is not included, nor is Orica’s JV with Grupo Merand in Venezuela that operates two explosives plants. Many of the smaller interests of Australian firms are not included for the same reason, such as the Nufarm-owned subsidiary companies in 10 Latin American countries that distribute Nufarm’s products.

(3) Several Australian construction, mining and mining services companies operate in Latin America on a project basis and have project-based subsidiaries or representative offices in Latin America. Australia-based mining companies also have ventures in Latin America that are in different stages of development. They may have concessions for exploration of mineral deposits, or are in the process of acquiring funding. Others are still awaiting permissions to start mining operations and/or are in the process of securing funding for that purpose on Australian or international capital markets. Or they are creating JV operations for that purpose. Brambles and Bovis Lend Lease have a presence in Argentina, Brazil, Chile and Mexico for the purpose of securing or carrying out construction projects. Engineering company Cullen Grummit and Roe has a presence in Argentina and Peru and conducts port development projects in different Latin American countries. Likewise, mining services companies Maptek and Mincom conduct IT projects in several places in Latin America.

(4) Several Australian companies arranged acquisitions of firms through their foreign subsidiaries. For example, Amcor acquired a significant presence in 2003 through a US$115 million purchase of competitor Alcoa’s nine PET container production facilities in Latin America, but through its US subsidiary Amcor Holdings. The large mining companies conduct operations in this way. For example, BHP Billiton invested in Chile via one of its US subsidiaries (Van Ruth 2008: 13). Consequently, Australia’s large mining companies, particularly BHP Billiton, Rio Tinto, and Xtrata, have established multiple operations in Latin America not shown in Table 7. Similarly, the purchase of Rinker was actually financed through the foreign operations of Cemex, not by its headquarters in Mexico (ECLAC 2007: 55).

Table 7: Company Acquisitions between Australia and Latin America, 1997-2010

Australian firm	Latin American firm	Country	Year	Industry	Stake	Deal value (mln A$)
By Australian firms in Latin America						
Nufarm Ltd	Agripec Quimica e Farmacêutica SA	Brazil	2004, 2007	Manufacturing	100%	389
Pacific Hydro Ltd	Coya and Pangal hyrdoelectric plants	Chile	2003	Utilities	100%	120
Pacific Hydro International Pty Ltd	Pacific Hydro Chile SA	Chile	2008	Utilities	>50%	118
Superannuation funds consortium	GasValpo SA	Chile	2008	Utilities	100%	101
SEEK Ltd	Brasil Online Holdings Coöperatief UA	Brazil	2008	ICT	30%	81
Beadell Resources Ltd	Mineração Pedra Branca do Amapari Ltda	Brazil	2010	Mining	100%	68
QBE Insurance Group Ltd	Reliance National Compania Argentina de Seguros SA	Argentina	2001	Insurance	>50%	47
Strike Resources Ltd	Apurímac Ferrum SA	Peru	2008	Mining	51%	39
AGL Ltd	GasValpo SA	Chile	2000 (1)	Utilities	100%	37
Admiralty Resources NL	Compania Minera Santa Barbara SA	Chile	2005, 2008	Mining	60%	28
QBE Insurance Group Ltd	Compañía Central de Seguros SA	Colombia	2005	Insurance	97%	26
Austin Engineering Ltd	Conymet Ltda	Chile	2009	Mining services	100%	23
BHP Billiton Ltd	Jaguar Nickel SA	Guatemala	2005	Mining	100%	22
Voicenet (Aust) Ltd	Rimpex International SA	Chile	2000	ICT	100%	11
Natasa Mining Ltd (2)	Puquios copper project	Chile	2007	Mining	92%	10
Coffey International Ltd	Geoexplore Consultoria e Servicos Ltda	Brazil	2007	Mining services	100%	8
SMC Gold Ltd	Compañía Minera Tamaya SA	Chile	2003	Mining	100%	8
Orica Ltd	Andean Chemicals Group	Chile, Peru	2005	Manufacturing	51%	8
Tiger Resources Ltd	Bom Jardim Creek Project	Brazil	2005	Mining	100%	7
By Latin American firms in Australia						
Rinker Group Ltd	Cemex SAB de CV	Mexico	2007 (3)	Construction	100%	19,392
AMCI Holdings Australia Pty Ltd	Companhia Vale do Rio Doce Ltda	Brazil	2007	Mining	100%	986
Tatiara Meat Company Pty Ltd	JBS SA	Brazil	2010	Food processing	100%	35
Rositas Investments Pty Ltd	Gruma SA de CV	Mexico	2006	Food processing	100%	18

Notes: Only deals with a disclosed value over A$6 million. Total deal value may vary from announcements, due to exchange rate differences between deal announcements and conclusions denominated in US$. (1) Divested in 2008. (2) Previously Investika Ltd. (3) Divested in 2009.
Sources: Bureau van Dijk, Zephyr database, May 2010; company public announcements.

For those reasons, Tables 6 and 7 only give a partial impression of the investments relations between Australia and Latin America. On the other hand, Australian firms are altogether not major investors in Latin America. For example, at the end of 2008 FDI from Australia was only 3% of the total stock of FDI in Chile (INE 2009), and just 2% of the stock of FDI in Brazil (BCB 2010).

This section has shown that Australia's business relations with Latin America are focused on Argentina, Brazil, Chile and Mexico. Trade relations have diversified towards manufactured products and services. Goods trade has grown faster than Australia's trade with the rest of the world. Nevertheless, Australia's business relations with Latin America remain of lesser significance compared with those with other parts of the world, and *vice versa*. This impression is confirmed by the three recent surveys among Australian companies by Australia's Export Finance Insurance Corporation (EFIC). They consistently rate Central and South America last among all continents in the world (including Africa) in terms of foreign revenues (14% in 2008), export destinations (12% in 2009, 10% in 2010), expected future export destinations (14% in 2009 and 2010), off-shore operations (9% in 2008, 6% in 2009, 4% in 2010, particularly mining companies), and expected future off-shore operations (6% in 2008, 10% in 2009, 7% in 2010) (EFIC 2008: 16, 24, 30; EFIC 2009: 18, 24, 30, 46; EFIC 2010: 28, 32, 42, 52). Consequently, there are still ample opportunities for a further expansion of business relations. Before analysing how this may be fostered, this paper probes factors that help to explain why Australian interest in business relations with Latin America is still retrained.

3. Business environments: How important are the remaining differences?

Distance across the Pacific Ocean is sometimes identified as a major impediment to Australia's business relations with Latin America. For example, a 2001 DFAT report noted that the long distance between Australia and Latin America increases the share of transport costs, especially for Australia's low-value bulk export commodities (DFAT 2001: 20-21). However, long physical distances are not necessarily an impediment if efficient transport connections (shipping and air transport) for goods and people exist. An amalgam of other notions, such as 'economic', 'institutional' and 'psychic' distance, rather than simply geographic distance, may explain the degree business contacts.

Economic distance relates to differences in the economic situation between Australia and the countries of Latin America. Table 8 shows that Australia is small in terms of population, but its GDP per capita and therefore its standard of living is high relative to the main countries of Latin America. Australia's GDP is therefore relatively large. The degree to which the Australian economy depends on foreign trade is broadly comparable to Latin America as a whole, which of course implies that trade per capita is considerably higher than in Latin America.

The level of GDP per capita is an indicator of the maturity of markets for advanced goods and services. Market size matters to business relations, but so does a range of other aspects of the business environment, such as economic stability. During the past 20 years, major countries in Latin America have experienced significant macro-economic crises, particularly Mexico in 1982, 1990 and 1994-95, Brazil in 1994-95 and Argentina in 2002-03. Drastic exchange rate fluctuations enhanced the risk of doing business with these countries. Memories of such episodes of economic crisis may be fading, but they are likely to feed lingering general impressions of economic instability.

Other factors shape perceptions of economic distance. Exchange rate stability may be less relevant in trade relations, as international transactions are generally denominated in stable international currencies, and firms hedge adverse exchange rate movements. More important is the likelihood that foreign business partners will pay for deliveries, or will deliver goods upon receipt of payment, for which the letter of credit and bill of exchange mechanism is sufficient. For transactions with customers in high-risk countries, companies may secure the services of government-sponsored agencies that offer export credit insurance. In Australia, EFIC uses the country risk classifications of the Organisation for Economic Cooperation and Development (OECD) for its insurance activities. Table 9 shows that Australia is among the low-risk countries. Most Latin American countries are in the medium (Chile, Mexico and Costa Rica) to high risk (Argentina and Ecuador) categories. Some countries have reduced their risk ranking; particularly Mexico and Brazil (see Section 4).

Table 8: Basic Economic Indicators, Australia and Its Main Trade Partners in Latin America

	Population (mln, 2008)	GDP (bln US$, 2008)	GDP per capita (US$, 2008)	Trade per capita (US$, 2006-08 av.)	Trade to GDP ratio (2006-08 av.)
Australia	21.4	1,015.2	47,498	18,699	46
Brazil	192.0	1,612.5	8,400	1,854	26
Mexico	106.4	1,886.0	17,733	5,643	58
Colombia	44.5	242.3	5,440	1,648	36
Argentina	39.9	328.4	8,235	3,070	45
Peru	28.8	127.4	4,419	1,968	52
Chile	16.8	169.5	10,112	7,766	81
Guatemala	13.7	39.0	2,850	1,707	66
Ecuador	13.5	52.6	3,900	2,507	72
Dominican Rep	9.8	45.8	4,654	2,798	66
El Salvador	6.1	22.1	3,605	2,529	76
Costa Rica	4.5	29.8	6,590	6,035	103
Uruguay	3.3	32.2	9,654	4,468	58
Jamaica	2.7	15.1	5,604	5,028	101
Trinidad & Tobago	1.3	23.9	17,861	15,278	111
Total, average	483.3	4,626.5	9,572	3,135	47

Note: The average trade-GDP ratio for Latin America is unweighted.
Source: WTO Country Profiles, http://stat.wto.org/

We can expect a positive correlation between the risk rating of these countries and the reluctance among Australian companies to export to or import from these countries. Firms can minimise transaction risks, for example by dealing exclusively with trusted business partners or purchasing export credit insurance from financial institutions or possibly EFIC, but such actions increase their transaction costs. The indicators are based on the payment experiences of OECD countries, as well as the financial and economic situation of assessed countries, but the OECD does not publish the details of its deliberations. McCoy and McLendon (2009) discuss factors that shape the business environment in 18 Latin American countries. These are also captured in composite indices that rank countries on the basis of various aspects of their business environment. Table 10 shows three of such composite indices and confirms that there are major differences between the business environments of Australia and Latin America. Those differences inform perceptions of risk that companies take into account when considering whether to take advantage of foreign business opportunities through trade and investment, or not. For example, research for Latin American countries found that greater economic freedom, as well as minimisation of expropriation risk, financial and trade reforms, good governance and institutional improvements are all positively correlated with greater inflows of FDI (Bengoa and Sanchez-Robles 2003; Treviño and Mixon 2004; Biglaiser and De Rouen 2006).

Table 9: OECD Country Risk Classifications, Australia and Latin America, 1999-2010

	1999-02	2003-06	2007-10
Australia	0.0	0.0	0.0
Chile	2.0	2.0	2.0
Trinidad and Tobago	2.4	2.0	2.0
Mexico	3.4	2.6	2.2
Costa Rica	3.5	3.0	3.0
Brazil	5.9	5.4	3.2
Peru	5.1	4.6	3.5
El Salvador	4.0	4.0	4.0
Colombia	4.9	5.3	4.0
Uruguay	3.6	5.9	4.2
Guatemala	6.0	5.9	5.0
Paraguay	5.6	6.5	5.5
Jamaica	5.0	5.9	6.0
Honduras	6.9	7.0	6.2
Venezuela	4.8	6.3	6.2
Argentina	5.9	7.0	7.0
Bolivia	6.6	7.0	7.0
Ecuador	6.9	7.0	7.0
Nicaragua	7.0	7.0	7.0

Note: The classifications are for export credit risk assessment. The scale is from 0 (low risk) to 7 (high risk). The data shown are quarterly averages.

Source: Calculated from OECD, http://www.oecd.org/dataoecd/9/12/35483246.pdf

Most pertinent to firms engaged in international business are issues captured by the World Bank's annual survey of the business environment around the world.[5] The summary in Table 11 shows that Australia is not the easiest country to conduct business

[5] Brenes *et al.* (2009) offer a firm-level perspective of the importance of some of these impediments, while Donoso and Crittenden (2008) explain the ample opportunities for further research on the international competitiveness and strategic management of firms in Latin America.

in. However, compared with most countries in Latin America, it ranks on average highly. Hence, it is not just on the basis of the opinions of company executives and/or macro-economic and financial indicators that Latin American countries can be regarded as difficult and risky countries for the purposes of international business. A range of micro-economic, regulatory issues relevant to business operations points in the same direction.

Table 10: Diversity in the Business Environments of Australia and Latin America, 2009-2010

	Opacity Index 2009	Index of Economic Freedom 2010	*Euromoney* Country Risk Index 2009
Australia	14.0	82.6	85.8
Chile	25.0	77.2	67.9
Mexico	37.0	68.3	61.5
Brazil	43.0	55.6	59.2
Peru		67.6	56.0
Colombia	44.0	65.5	53.6
Trinidad and Tobago		65.7	53.2
Costa Rica		65.9	52.6
Uruguay		69.8	49.2
Guatemala		61.0	47.8
El Salvador		69.9	47.3
Honduras		58.3	44.7
Argentina	42.0	51.2	42.6
Jamaica		65.5	42.0
Venezuela	48.0	37.1	42.0
Paraguay		61.3	40.2
Bolivia		49.4	37.1
Ecuador	42.0	49.3	33.1
Nicaragua		58.3	32.8

Note: The scales are from 0 (respectively low opacity, low economic freedom or high risk) to 100 (respectively high opacity, high economic freedom or low risk).
Sources: Kurtzman and Yago 2009; Miller and Holmes 2010; *Euromoney* (March 2009).

Companies can overcome difficulties in foreign business environments. For example, with specific reference to Australian firms in Latin America, Van Ruth (2008) found that person-to-person contact and the creation of networks based on such personal contacts can help overcome the difficulties that underlie the ‘psychic distance’ between Australia and Latin America. Networks mitigated risk and expedited the internationalisation of Australian firms in Latin America by providing access to business information that would otherwise be difficult to obtain, *e.g.* in finding employees, agents or local partners, providing access to customers and suppliers, as well as reassurance and credibility, and an opportunity to share experiences and learn from them. Arguably, networks are particularly relevant to the business environment in Latin American countries, given the opacity and the uncertainties caused by weak formal institutions in most of them, but also because of a culturally ingrained penchant for personal relationships that is much stronger than in Australia (Osland *et al.* 2008: 111).

Table 11: Australia and Latin American Countries in Global Ranking of 183 Countries by Ease of Doing Business, 2010

	Total	Starting a business	Dealing with construction permits	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Enforcing contracts	Closing a business
Australia	9	3	62	1	34	4	57	47	16	14
Puerto Rico	35	15	149	22	124	30	16	104	97	30
Colombia	37	74	32	63	51	61	5	115	152	32
Chile	49	69	67	72	42	71	41	45	69	114
Mexico	51	90	37	136	99	61	41	106	81	24
Peru	56	112	117	112	28	15	20	86	114	99
Jamaica	75	19	49	39	122	87	73	174	128	23
Trinidad & Tobago	81	65	82	45	170	30	20	56	169	183
El Salvador	84	121	128	106	46	43	119	134	50	81
Guatemala	110	156	150	127	24	4	132	108	103	93
Uruguay	114	132	140	64	165	43	93	159	96	46
Nicaragua	117	95	137	84	143	87	93	165	67	70
Argentina	118	138	168	101	115	61	109	142	46	86
Costa Rica	121	127	128	110	49	61	165	154	132	101
Paraguay	124	100	106	179	79	71	57	110	104	119
Brazil	129	126	113	138	120	87	73	150	100	131
Ecuador	138	163	86	160	69	87	132	77	101	134
Honduras	141	144	74	168	91	30	165	145	175	118
Bolivia	161	167	101	183	135	113	132	177	136	62
Venezuela	177	142	94	181	97	177	178	182	74	151

Source: World Bank, http://www.doingbusiness.org/economyrankings

Effective networks are the result of companies pursuing a long-term strategy of building them by investing time and effort in the long accumulative process of establishing and maintaining personal and business relations. Spanish may still be a difficult language for many Australian business people. English is likely to be a second language for business people in Latin America, but speaking the same language does not necessarily mean that people entirely understand each other's intentions, as arguably over 90% of interpersonal communication tends to be of a non-verbal nature (Mehrabian 1981). If so, cultural differences may impact on the perceived 'distance' between the business environments of Australia and Latin American countries as a barrier to business contacts.

The cultural differences between Australia and Latin America are substantial. For example, Australia scores 90 on Hofstede's 'Individualism Index', while the average score for 14 Latin American countries is 22 (Hofstede 1997: 26, 53, 84, 113). This indicates that Latin American individuals are inclined to establish strong, cohesive in-groups based on personal relationships, while in Australia ties between individuals tend to be loose. Australia scores 51 on the 'Uncertainty Avoidance Index' and the average for Latin America is 80. This indicates that Australians are more tolerant of the uncertainty and ambiguity of new situations and experiences, while in Latin American countries people prefer to avoid uncertainty. There are therefore major differences in the norms and values of Australians and people in Latin America, which could be a source of miscommunication at an interpersonal level. Nevertheless, only 15% of all Australian companies identified cultural differences as a major barrier to international expansion, the lowest of all perceived barriers (EFIC 2008: 42 and 52). A further 57% regarded cultural differences to be a minor barrier.

Awareness of the relevance of cultural differences tends to be a personal experience, which only comes with sustained immersion in a different culture. Large companies may be able to help key managers to develop ways to overcome cultural differences, but small-and medium sized enterprises (SMEs) do not, notwithstanding the increasing ease of communications by internet across the globe. In Australia, particularly SMEs face a steep learning curve when they seek to engage in international business. Consequently, only 10% of Australian SMEs engages in exporting (Sensis 2010: 17), lower than in other countries (Austrade 2002: 9).

The perception of physical distance across the Pacific Ocean is enhanced by cumbersome communications. Telephone and internet connections may now be well developed, but there are still limited direct shipping connections between Australian ports and ports in Latin America. For example 0.9% of the value of outward freight loaded in Australian ports is destined for South America, and 0.8% of freight unloaded in Australian ports originated from South America (BITRE 2008: 8 and 11), which is lower than the share of Latin America as a whole in the value of trade. Most of this cargo is transhipped in containers via other ports. For example, shipping company Maersk ships containers between Australia and Latin America via Mazarillo and Balboa in Panama and Cartagena in Colombia, while Evergreen ships them via ports in Asia, such as Hong Kong and Singapore to the East Coast, and via Colon in Panama to the West Coast of Latin America. Facilities in container ports may be efficient, but transhipments add costs and increase delays in deliveries.

The considerable challenges in Latin America's business environment did not deter all Australian firms. Business relations have grown, but they are largely the result of

Australian companies seizing opportunities and finding ways to deal with elements of risk. Potter (2009) discussed the difficulties that Australian firms, such as RYCO Hydraulics, had to overcome in Brazil before their ventures succeeded. On the other hand, there are examples of firms whose ventures in Latin America did not live up to expectations. For example, Village Roadshow created in 1994 a subsidiary venture to establish and manage cinemas in Argentina, which it divested in 2005 when the venture became unprofitable. Likewise, AGL took in 2000 a controlling share in GasValpo in Chile, a gas distributor, which it divested in 2008.

Australian government agencies assist firms in overcoming the risks that firms perceive when considering business relations with Latin America. Three-quarters (76%) of Australian firms identified their lack of local business and market knowledge in foreign countries as an impediment to engagement in international business (EFIC 2008: 53). About a third (32%) had used the services of Austrade to overcome this impediment, and 15% had consulted EFIC (EFIC 2009: 66). EFIC's expertise with Latin America appears limited. For example, it does not issue any profiles on the countries of that global region, but refers potential customers to the OECD country risk grades mentioned above. EFIC's annual reports indicate that the share of South America in the agency's total exposure increased from 0.4% in mid-2006 and 2007 to 2.8% in mid-2008 and 2009. Although still marginal, firms have increased their appeals to EFIC for support of their undertakings in Latin America.

This section showed that there are important differences between the business environments of Australia and the countries of Latin America. They may have deterred many companies, but not all. Particularly Australia-based mining companies have established business relations in Latin America, possibly in response to the doubling of metals and energy prices on global markets since 2004 (IMF 2010) that increased the incentives for firms to overcome the difficulties of doing business in Latin America, and absorb the cost of minimising risk. Outside the mining sector, there are fewer examples of Australian firms investing in Latin America, while there are few examples of Latin American companies that invested in Australia. Hence, the differences in the business environments of Australia and Latin America most likely still deter business relations.

4. Shared experiences in structural reform and trade liberalisation

Prior to the 1980s, Australia and Latin America regarded each other primarily as trade competitors rather than trade partners. Brazil, Argentina, Chile and Colombia were, like Australia, competitive exporters of the same temperate and sub-tropical agricultural products (such as beef, grains, sugar, fruit and fruit products) and minerals (especially iron ore in Brazil) to Northern hemisphere markets. Nevertheless, they shared interests in defending their agricultural trade against the protectionist agricultural policies of the European Community (EC) and the United States of America (USA) as exporting members of international commodity agreements and through the dispute settlement provisions of the General Agreement on Trade and Tariffs (GATT) (Kenyon and Lee 2006: 25-27, 45-49). Beyond agriculture, Australia and Latin American countries followed essentially inward looking industry policies through import substitution, high tariffs and non-tariff trade barriers to manufactured imports, managed exchange rates and foreign exchange controls, and a relatively high level of government involvement and management of the economy. Such policy stances hindered broader business links between Australia and Latin America. Australia and Latin American countries also pursued different priorities regarding regional economic integration. Australia's priorities were oriented towards newly emerging markets in East Asia, as well as the US, and focused exports of agricultural and mining sectors. During the 1960s and 1970s, Latin American countries, fostered regional economic integration, but their inward-looking trade and industry policies made effective cooperation difficult.

By the early 1980s, the successive shocks caused by oil price hikes, 'stagflation' in Western Europe and North America, and the emergence of an industrially more competitive Japan created a new situation that called on countries to consider ways to increase the global competitiveness of their enterprises. Tariff protection and economic systems with a high degree of government intervention gave way to open trade policies, de-regulated industries and floating exchange rates. In Australia, a period of fundamental change in economic and trade policy started in the early-1980s that saw the deregulation of currency and exchange controls and the floating of the Australian dollar, the dismantling of the protective system of high industrial tariffs, de-regulation and privatisation of many previously government controlled and owned industries, followed by regulatory reforms of the financial sector and the lifting of restrictions on foreign investment (Kenyon and Lee 2006: 52-53) In all, by the early 1990s, Australia had a more integrated and internationally competitive financial sector, as well as a reduced role of government in the management of the economy. During the 1990s Australia's economy became more open and internationally competitive.

Similar changes took hold in key Latin American countries, albeit that financial crises in some countries resulted in a 'two steps forwards, one backwards' approach. In Mexico, the external debt crisis of 1982 gave rise to a programme of wide-ranging economic reforms. Mexico joined GATT in 1986, marking the start of a process of reducing tariff protection as well as programmes of privatisation and regulatory reform. Financial crises in 1990 and 1994 halted the process temporarily, but the entry into force of the North American Free Trade Agreement (NAFTA) with Canada and the USA in 1994 provided a new momentum of trade liberalisation and Mexico's integration in global markets.

In Brazil, the process of integration into global markets started in earnestness in 1994, after years of debilitating high inflation. That year, Brazil stabilised the currency exchange rate relative to the US dollar to address inflation problems. This was supported by a vigorous programme of privatisation and de-regulation that opened up the economy to market-based principles during the 1990s. The changes were not without difficulties. Nevertheless, prudent economic management secured economic stability and economic growth followed.

In the early-1990s, Argentina took similar measures to Brazil to resolve the problem of high inflation. It too suffered the consequences of an economy with a heavy predominance on government management. In 1991 it pegged its currency to the US dollar and imposed fiscal discipline. Processes of privatisation and deregulation, as well as reducing barriers to foreign trade and investment facilitated economic recovery and growth. This was interrupted in 2002, when the US dollar peg became unsustainable. Further policy action such as abandoning full convertibility with the US dollar stabilised the currency a year later, and marked a new process of recovery and growth.

In Chile, economic reforms already started in the mid-1970s, when it lifted barriers to trade and investment and embarked on a process of privatisation and financial market deregulation. These were the foundations for significant economic growth during the 1980s and 1990s, sustained by Chile's increasing engagement in global markets. Chile's foreign trade indeed expanded rapidly following the global deregulation of trade barriers since the late-1980s.

These Latin American countries embarked on processes of deregulation, privatisation and liberalisation of trade and investment policies for their own reasons and with their own institutional legacies. There were differences between each of them, as well as with other Latin American countries.[6] Hence, their experiences cannot be readily extrapolated to other countries in the region. For example, countries like Venezuela, Ecuador and Peru did not experience such changes, while in other countries such as Colombia similar changes started more recently.

The point is that these four countries and Australia since the 1970s underwent similar processes of economic change that resulted in increasing engagement with global markets. At the same time, global trade of goods and services, as well as investment flows increased rapidly during the 1990s and 2000s, to a much greater degree than had ever occurred before (WTO 2009: 173; UNCTAD 2009: 4). This growth was sustained by a global adherence to trade liberalisation following the end of communism in Eastern Europe around 1990, the successful conclusion of the GATT Uruguay Round (1986-93), and continued efforts to reduce trade barriers multilaterally, particularly for services, under the WTO mandate. Hence, during the last 20 years these countries enhanced their ability to participate in international business, and draw benefits from it.

The conclusion of the Uruguay Round gave a new impetus to the business relations between Australia and Latin America. The GATT negotiations had to deal with the challenge posed by the agricultural policies of the EC, the US, Japan and South Korea to the major trade interests of Australia and Latin American countries. The war of agricultural export subsidies between the EC and the USA took world agricultural trade to a crisis point by the beginning of the Uruguay Round in 1986. Australia brought 14 developed and developing countries together in the Cairns Group (CG) of agricultural exporting countries, including five Latin American countries (Argentina, Brazil, Chile, Colombia and Uruguay).[7] The success of the CG, and the cooperation experience dispelled much of the reticence that had previously marked relations between Australia and Latin American countries.

Hence, by the mid-1990s, the prospects for future partnership between Australia and Latin America had been transformed. In addition, the implementation of economic and trade reform policies put Australia and key Latin American countries on more comparable paths of economic and trade openness. It obliged industries in these countries to re-adjust according to their comparative advantage, thus creating opportunities for closer business relations, as Section 2 outlined. Nevertheless, while the competitiveness of Australia and the four key Latin American countries and their engagement in international business increased, a range of issues remain. They range from the issues that shape the business environment in these countries (Section 3), to broader issues such as labour market rigidities and the considerable and tenacious problem of income inequality and poverty. In addition, processes of deregulation are still incomplete in several sectors,

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[6] Nevertheless these policy changes affected Latin America to a significant extent and were hailed as Latin America's 'New Economic Model' that fostered FDI inflows during the 1990s (see *e.g.* Mortimore 2000).
[7] After the end of the Uruguay Round, 5 other Latin American countries (Bolivia, Costa Rica, Guatemala, Paraguay and Peru), plus Pakistan and South Africa joined the CG.

in some Latin American countries more than others (*e.g.* Walton 2004). For example, Chile's business environment is for that reason more comparable to that of Australia than that of other countries. Such resulting regulatory divergences continue to impose impediments to goods and services trade across the Pacific.

5. A new partnership: Multilateral, regional and bilateral

The continued diversity of business environments in Australia and Latin America makes it necessary for these countries to pursue a range of different, but interrelated multilateral, plurilateral and bilateral options in an effort to broaden and deepen their business relationships. Table 12 shows that Australia and key Latin American countries share only two fora that could be the basis for multi-country discussions on common interests in advancing their business relations: WTO and UNCTAD.

Table 12: Membership of International Organisations and Regional Trade Agreements Relevant to Australia-Latin America Business Relations, February 2010

	International			Regional				
	WTO	UNCTAD	APEC	LAIA	Mercosur	CACM	CAFTA	NAFTA
Australia	✓	✓	✓					
USA	✓	✓	✓				✓	✓
Argentina	✓	✓		✓	✓			
Bolivia	✓	✓		✓				
Brazil	✓	✓		✓	✓			
Chile	✓	✓	✓	✓				
Colombia	✓	✓		✓				
Costa Rica	✓	✓				✓	✓	
Cuba	✓	✓		✓				
Dominican Rep.	✓	✓					✓	
Ecuador	✓	✓		✓				
El Salvador	✓	✓				✓	✓	
Guatemala	✓	✓				✓	✓	
Honduras	✓	✓				✓	✓	
Mexico	✓	✓	✓	✓				✓
Nicaragua	✓	✓				✓	✓	
Paraguay	✓	✓		✓	✓			
Peru	✓	✓	✓	✓				
Uruguay	✓	✓		✓	✓			
Venezuela	✓	✓		✓				

Notes: WTO = World Trade Organization; UNCTAD = United Nations Conference for Trade and Development; APEC = Asia-Pacific Economic Cooperation; LAIA = Latin American Integration Association; Mercosur = Mercado Común del Sur [Southern Common Market]; CACM = Central American Common Market, CAFTA = Central American Free Trade Agreement, NAFTA = North American Free Trade Agreement.
Sources: WTO, RTA Data Base, http://rtais.wto.org; UNCTAD, http://www.unctad.org

UNCTAD is effectively a forum that allows less-developed countries to draw attention to their concerns about international trade and investment issues, and develop solutions in cooperation with developed countries. It is not a forum in which multi-country coalitions generate leverage to advance global trade liberalisation. Nor does UNCTAD provide a forum for trade negotiations or constitute a body of trade rules in the way that WTO does. Table 12 also shows that several Latin American countries participate in regional trade agreements. Non-participation of Australia makes it difficult to see them as vehicles to advance common interests. That leaves WTO as the major international forum in which Australia and countries of Latin America can cooperate for the purpose of forging ties that may benefit mutual interests in trade liberalisation.

Multilateral

The recent difficulties of bringing the eight-year old WTO Doha round of trade negotiations to a successful conclusion have detracted from the other ways in which WTO delivers trade liberalisation and cooperation, and maintains an open world trading system from which all member countries benefit. The GATT/WTO system constitutes a body of international trade law that applies to its members, covering trade in goods and services, and intellectual property rights. It also includes a dispute settlement system to ensure adherence by member countries to the trade rules.

The conclusion of the GATT Uruguay Round bolstered this system, and it effectively ended the 'North-South' or developed-less-developed country divide. Australia and all Latin American countries participated actively in pragmatic coalitions of developed and less-developed countries that worked to achieve outcomes on a subject-by-subject or issue-by-issue basis. The stand-out example was the CG, but there were other 'North-South' coalitions (Preeg 1995: 3-6, 58-62). This practice was developed further during the Doha round, so that for example the CG continues to play an active role, now with 10 Latin American member countries.

Australia has worked in coalition groupings with some combination of Argentina, Brazil, Mexico or Chile in several areas of negotiations on rules and services issues. Examples are fisheries subsidies, the 'Colorado group' on trade facilitation issues, the mutual recognition of professional qualifications for architects and engineers, computer related services, logistics and maritime transport (Diego-Fernández 2008: 450). Australia and Latin American countries have shared interests in specific dispute settlement cases in WTO. Such cases provide opportunities to foster trade policy and business links further. Stand-out examples are the 'Byrd Amendment' case (2001) brought by Australia, Brazil, Chile, and others including the EU against an item of US anti-dumping legislation, and the 'Sugar Export Subsidy' case against the EU that was brought to WTO jointly by Australia, Brazil and Thailand (Diego-Fernández 2008: 442). The WTO dispute settlement system is an effective mechanism for enforcing adherence to the trade rules, and through its judgments it also makes major contributions to trade liberalisation.

A third way in which WTO contributes to trade liberalisation is through the accession negotiating process. The 58 countries that acceded to WTO since 1994 were each required to negotiate their accession terms. These reflect not only the collectivity of commitments made by existing members. They frequently seek to extract concessions that go beyond existing multilateral commitments, thereby foreshadowing trade liberalising objectives of future rounds of negotiations. Thus, for accessions since the 1994 establishment of WTO, its members have sought and secured 'WTO plus' trade liberalisation commitments from the new members. In this way, the WTO accession process also contributes to trade liberalisation.

WTO provides a valuable forum for trade policy cooperation between Australia and Latin American countries that could foster business links. Joint actions in pursuit of shared trade liberalisation objectives bring the respective trade policy objectives closer together. Joint action in dispute settlement cases and accession negotiations dealing with shared trade problems strengthens habits of working together. The more Australia and Latin American countries work together in WTO, the more likely it is that they find common cause in a future post-Doha agenda for WTO. This may be especially relevant with regard to dealing with the 'behind the border' barriers to trade such as product standards and domestic services regulations.

Plurilateral

Since the 1980s, Latin American countries concluded regional and extra-regional agreements with major trading partners of the Northern hemisphere, with Mexico and Chile leading the way. Mexico concluded the NAFTA agreement with the USA and Canada (1994), followed by the Mexico-EU (2000) and a Mexico-EFTA (2001) agreements. FTAs now cover over 90% of Mexico's total trade (JEG 2009: 31). Chile concluded agreements with the EU (2002), the USA (2004) and EFTA (2004). Chile accumulated no less than 54 Free Trade Agreements (FTAs), including Australia (2009).

Most agreements are 'new generation' FTAs that aim to be 'WTO plus'. They satisfy the tariff liberalisation requirements of GATT article XXIV, but go beyond the Uruguay Round commitments in the new WTO areas of services trade liberalisation and intellectual property protection. They also achieve new, more liberal commitments in domestic regulatory policies that impact on trade and investment flows, such as product standards, domestic services regulations, public procurement policies, investment restrictions, and protection and business visas.[8] These new FTAs therefore demonstrate a readiness among Latin American countries to go beyond tariff liberalisation. In addition, participation in such FTAs underlines recognition that future outcomes may be best pursued by negotiating directly on the domestic regulations that hinder trade and investment flows, rather than a continued focus on border measures such as 'market access' and 'national treatment' commitments in the case of services under the General Agreement on Trade in Services (GATS) (Marconini 2006).

The G20 group may strengthen Australia's business relations with Latin America. It was established in 1999 with the aim of stabilising global financial markets and its role increased during the recent global financial crisis. The recent G20 summits emerged as the principal forum for global economic cooperation. Current G20 members account for over 85% of global GDP and 80% of global trade. Australia, Argentina, Brazil and Mexico are members. At summits in 2008 and 2009, G20 leaders have pledged, *inter alia*, to develop programmes for strong, sustainable balanced growth subject to peer review, refrain from protectionist trade measures, and seek a conclusion to the Doha negotiations. Summits in 2010 emphasised strategies for recovery from the global financial crisis, reform of international financial regulatory system and reform of the

[8] Marconini (2006) and Sauvé (2006) analysed for services and investment whether these 'new generation' FTAs between Latin American countries are indeed 'WTO plus' or possibly 'WTO minus'.

IMF. G20 dialogue will provide opportunities for exchanges between Australia and the Latin American members on economic growth and financial stability objectives in an open trade environment, which is likely to strengthen business links.

The Asia-Pacific Economic Cooperation (APEC) forum is a plurilateral grouping which can make important contributions to building closer trade and investment links with Latin America. As Table 13 shows, Australia, Chile, Mexico and Peru are members. APEC is focused on trade integration and has already made contributions over the past two decades to the liberalisation of physical trade barriers in the APEC region. APEC members are now increasingly focused on reducing regulatory barriers to trade especially in relation to competition policy, customs procedures, the mutual recognition of standards and reducing trade barriers imposed by domestic regulations on services.

Australia is interested in the development of an overarching 'Free Trade Area of the Asia-Pacific' (FTAAP). This may include all APEC member economies and will require a lengthy period of preparatory work. While the FTAAP initiative had some resonance in APEC member countries Chile, Mexico and Peru, it remains to be seen whether the governments of these countries will be interested in participating in such an overarching FTA. In that context, plans have been underway since 2008 for a Trans Pacific Partnership Agreement (TPP) that brought together 9 countries, including Australia, Chile, Peru and the US. TPP is another important initiative strengthening links across the Pacific. Participants are expected to aim for a 'WTO plus' plurilateral agreement that increases economic integration in the Asia-Pacific region. The TPP could be a step towards multilateralising or at least regionalising existing FTAs between TPP partners. Alternatively, existing FTAs could continue to exist alongside the TPP. Either way, the TPP agreement 'represents a pathway towards achieving APEC's long term goal of a Free Trade Area of the Asia-Pacific' (Crean 2010ab).

Bilateral

Bilateral FTAs can have a discriminatory impact on trading partners that are not parties to bilateral preferential agreements. For example, Mexico's engagement in NAFTA favours trade with the USA and Canada, and implicitly discriminates against Australia. This makes Australia's bilateral relationship with Mexico more complex than with other Latin American partners. Mexico's focus on extracting maximum benefits from NAFTA and its growing concern with competition from China in the US market, complicate its relations with Australia. A 'Joint Expert Group' (JEG) established under the Australia-Mexico Trade and Investment Agreement (1994) recently identified scope for 'increased economic cooperation' and 'an enhanced trade policy dialogue' (JEG 2009: 47).

Australia's major business interests in Mexico centre on exports of minerals and investment in mining, as well as agriculture and agri-business services. It has an interest in eliminating Mexico's discriminatory import tariffs against *e.g.* Australian beef. Mexico's major interests in Australia are in attracting more FDI in mining and relief from Australia's phyto-sanitary barriers against Mexico's horticultural exports. The bilateral business relationship continues to be hampered by a mutual lack of awareness of trade and investment potential, poor air and sea transport links, as well as a variety of regulatory problems, including customs procedures, standards, services regulations and public procurement policies. Table 13 shows that Australia and Mexico already have trade-related bilateral agreements. In future, several bilateral initiatives might be taken to enhance the business relationship. For example, renegotiation of the Memorandum of Understanding (MoU) on Mining, opening dialogues on reducing regulatory barriers to cross-border trade in services, and on options for regulatory cooperation more generally, which may encompass recognition of professional qualifications, customs procedures, public procurement policies and standards.

Table 13: Business-Related Bilateral Agreements between Australia and Latin American Countries

	Argen-tina	Brazil	Chile	Mexico	Colo-mbia	Peru	Uru-guay
Free trade agreement	-	-	2009	-	-	-	-
Air services agreement	1992	2010	2001	2005	-	-	-
Investment protection agreement	1997	-	1999	2007	-	1997	2001*
Double taxation agreement	2000	-	2010*	2004	-	-	-
MoU on education and training	2001	2005	2004	2008	2002	2006	-
MoU on scientific and technological cooperation	2003	2001	-	2004	-	-	-
MoU on sanitary matters	-	1998	-	-	-	-	-
MoU on development of rail infrastructure	yes	-	-	-	-	-	-
MoU on energy cooperation	-	-	-	2005	-	-	-
MoU on mining cooperation	-	-	2006	2002°	-	-	-

Notes: * = not yet in force. ° = expired in 2007. Years indicate when the agreement came into force, or when the memorandum was signed.
Sources: United Nations Treaty Series http://treaties.un.org; DFAT Annual Reports (1993/94-2009/10); Department of Infrastructure (Australia) http://www.infrastructure.gov.au/aviation/international/agreements.aspx; Treasury Department (Australia) http://www.treasury.gov.au/contentitem.asp?ContentID=625; Sistema de Información sobre Comercio Exterior (SICE, Organization of American States) http://www.sice.oas.org.

Chile's economy is now the most open in Latin America. Despite its extensive network of FTAs, Chile is a strong supporter of WTO. It is also a participant in APEC and in the TPP negotiations. Several Australian companies have chosen Chile as a base for their Latin American operations. The development of Australia's business relationship with Chile will be largely determined by the 2009 Australia-Chile FTA, and possibly how the TPP-FTA negotiations unfold. Table 13 shows that further trade-related bilateral agreements are in place, but there are areas where Australia and Chile might build on the provisions of the FTA. This could include action on mutual recognition of standards beyond the WTO Agreement on Technical Barriers to Trade, or possibly mutual recognition agreements on professional qualifications.

Like Australia, Brazil has a broadly based export profile with North Asia, especially China, North America and Europe. This comparable profile opens up opportunities for increased trade and investment in mining, mining technology and agri-business, as well as professional, business, consultancy and financial services. Unlike Mexico, access to the Brazilian market is not compromised by the existence of preferential FTAs with Northern hemisphere partners.

Brazil is a member of the 1991 Mercosur customs union with Argentina, Paraguay and Uruguay and in tariff terms, Australia needs to deal with Mercosur as a single entity. Mercosur has not yet attempted to deal with non-tariff barriers to trade, which continue to be an obstacle to Australia's business relationship with Brazil. Hence, the many 'behind the border' non-tariff barriers and domestic regulations, such as investment restrictions, competition policy issues, tax measures, and issues related to public procurement and product standards, could be addressed through bilateral dialogue. Table 13 shows the relevant bilateral agreements between Australia and Brazil. An agreement for science and technology cooperation is being negotiated and there may be scope for the negotiation of a ‘Trade and Investment Facilitation Agreement’. Both countries also concluded an agreement in 2008 to establish a ‘Plan of Action to Achieve an Enhanced Partnership’. A way forward in fostering Australia-Brazil business relations would be a focused dialogue on regulatory obstacles in relation to trade and investment. Perhaps this could be achieved through both the ‘Enhanced Partnership’ action plan, or by revitalising the moribund 1996 ‘Mercosur-CER Dialogue’ to strengthen cooperation on issues of global trade. The latter could have the advantage of Australia and New Zealand engaging Brazil at the sub-WTO level in dealing with international trade issues.

Argentina would be included in the ‘Mercosur-CER Dialogue’. Australia and Argentina share interests as exporters of meat and grains, and have a shared experience in defending the interests of efficient agricultural exporters against protectionist policies of major Northern hemisphere countries. Table 13 shows that both concluded several agreements that support bilateral business relations. They also have common trade and investment interests in mining and mining technology, and services. Argentina’s fragile economic recovery from the 2002-03 financial crisis is a major obstacle. For example, its balance of payments problems required import restrictions through licensing, which depressed its imports from Australia.

Colombia and Peru have the capacity to become more important trading partners for Australia. Both are following Chile’s path of economic reform and trade openness. Australia recently concluded a MoU with Colombia aimed at strengthening trade and investment links. Australia’s mining interests in Peru are growing and an Australia-Peru air services agreement is under negotiation. Colombia is interested in becoming an APEC member, and both countries are interested in engaging more with the Western Pacific in the TPP negotiations. All this creates foundations for further dialogue.

6. Conclusion

The scope for closer business relations between Australia and Latin America has been slow to materialise, but rather than strangers they are now partners in the hemisphere. Up to the early 1980s, they thought of each other primarily as competitive exporters of agricultural and mining products, rather than as close business partners. Since then, global economic challenges caused the implementation of programmes of domestic economic reform and trade liberalisation. The economies of Australia and key Latin American countries became more open to international competition and trade, creating new opportunities for trade and investment flows across the Pacific.

Nevertheless, the Australian trade relations with Latin America still account for just 2% or less. Section 3 explained that major differences in business environments remain, while Section 4 explained that progress in the economic reform programmes of some key Latin American have been interrupted by periodic financial crises. Differences in per-capita GDP, continuing market rigidities and – in some cases – international payment restrictions are factors that sustain perceptions of ‘distance’ between Australia and its major Latin American partners. Latin American countries generally still have less favourable rankings than Australia in rankings that reflect the perceptions in the business world of the continent. Sustained efforts will be needed to address these hurdles which in part relate to the incompleteness of economic reform and trade liberalisation programmes.

Section 2 showed that business relations between Australia and Latin America are changing. Of special interest is the growth in operations of the large multinational mining companies. But other Australian companies are also showing increasing interest in Latin America. Section 5 elaborated that interest at an inter-governmental level in fostering closer trade relations is also growing. For example, the 2009 Australia-Chile FTA provides strong evidence of a commitment on both sides to deepening the economic relationship beyond tariff liberalisation to domestic regulatory cooperation.

Plurilateral opportunities for deepening business relations across the Pacific also exist. The TPP negotiations could bring Chile and Peru together with Australia and others into what could be a 'WTO plus' regional FTA. In addition, APEC will increasingly provide opportunities for closer dialogue between Australia and the member Latin American countries. WTO provides an opportunity for cooperation in the pursuit of shared multilateral trade liberalisation goals. Close Australian-Latin American cooperation continued in the Doha round, not only on agriculture, but several other issues. WTO provides opportunities for Australia and Latin American countries to work together on common interests relating to accession negotiations, dispute settlement cases and in helping to set the agenda for future trade negotiating rounds. In all, these developments enhance the opportunities and incentives for the further growth of Australia's business relations with Latin America in the coming years.

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