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Trade Policy at the Cross-Roads

Bill Carmichael



AUSTRALIA-JAPAN RESEARCH CENTRE
ASIA PACIFIC SCHOOL OF ECONOMICS & GOVERNMENT

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TRADE POLICY AT THE CROSS-ROADS

It is now widely agreed that the World Trade Organization (WTO) is in trouble, struggling to deliver the national rewards available from liberalising through multilateral negotiations. Prime Minister Howard and President Bush have committed to help restore the ability of the WTO system to deliver those rewards. This paper examines the contribution of domestic transparency procedures, introduced by and operating within participating countries, in dealing with the domestic causes of the problem facing the multilateral system. It explains the relevance of the proposal, prepared for Prime Minister Howard, in meeting the commitment he has taken. The Hong Kong Ministerial Meeting in December 2005 provides an opportunity to advance such a proposal and, in doing so, enhance our own trade performance.

The author was involved, with Alf Rattigan and John Crawford, in establishing the Industries Assistance Commission and was its chairman from 1985 to 1988. He was a member of the international study group — chaired by the former Director-General of the GATT, Olivier Long — which drew attention during the Uruguay Round of multilateral trade negotiations (1986–1994) to the need for domestic transparency in trade policy. He co-authored a review of trade policy conduct of industrial nations, which was published by the National Centre for Development Studies in 1996. He and Professor Ross Garnaut prepared a domestic transparency proposal for Prime Minister Howard in February 2004 to provide the basis for an Australian initiative in the Doha Round. This paper explains how this proposal would contribute to restoring an effective WTO system by enabling domestic economic welfare to replace domestic political pressures as the driver of multilateral trade negotiations.

Overview

Prime Minister Howard has described Australia's relationship with the United States as a shared opportunity to promote a more liberal world trading environment. Both he and President Bush have recognised that this will involve restoring progress in the World Trade Organisation and both have committed to help do that. To succeed, any approach will have to come to terms with the developments that have brought the WTO to its knees.

The first of those developments is the change occurring in the forms of protection in use — a change from tariff to non-tariff, and from border to non-border, forms. International negotiations and agreements achieved a great deal in opening world markets in early GATT Rounds, due to the relatively

simple nature of the decision rules involved in negotiating tariff reductions. They were responsible for the very substantial liberalisation that took place among North Atlantic countries.

But we have reached the point where progress through such easy decisions is behind us. Governments have found other ways of protecting their less competitive industries. Average industrial tariffs in OECD countries have been reduced from 40 per cent to 4 per cent through multilateral agreements. At the same time, however, non-tariff barriers have grown to the point where they now affect nearly half of world trade. In providing protection in these forms, governments have demonstrated that WTO rules can no longer ensure compliance with international agreements to reduce domestic barriers. The countries mainly responsible for this development — the EU, the United States and Japan — are also the countries principally responsible for distorting world trade in agriculture.

The second development is an expansion in the scope of international negotiations to cover most tradeable goods and services. In these new areas the forms of protection are complex and diverse. Many are in non-border forms and are seen, especially by those who oppose their removal, as belonging to domestic policy — beyond the reach of international rules and agreements. This, together with the rise of less transparent forms of protection to replace tariffs as these were bargained away, means that the relatively simple decision rules that delivered progress in the past can no longer do so.

The third development has been a flight to negotiate bilateral trade agreements, adding to the loss of momentum in the WTO. These developments have been well documented, as has the power of protected domestic producers over national decision-making on trade issues. The latter became painfully evident during Australia's bilateral negotiations with the US.

The problems caused by these developments have been compounded by the existing bargaining approach to opening world markets, on which the WTO has relied. This has created the impression that the gains for countries participating in multilateral negotiations result from the bargaining skills of their trade representatives in winning market 'concessions'. To the contrary, the greatest gains for each country result from reducing its own barriers. The residual gains available from liberalising in a multilateral context — those resulting from greater access to external markets — materialise only when participating countries agree to reduce the barriers protecting their less competitive industries. Paradoxically, therefore, the gains for countries participating in the WTO system — including those resulting from greater access to world markets — now depend on each approaching the negotiating table with 'offers' consciously structured to secure the gains from liberalising its own markets. The domestic decisions needed to secure the gains from liberalising unilaterally and in a multilateral context have converged. Progress through international negotiations now depends on what each participating country brings to the negotiating table, not what they hope to take away from it.

This has profound implications for the future of the WTO and for Australia's own access to world markets. WTO processes must begin with decisions taken at home to secure the gains from liberalising domestic markets, and culminate in international negotiations — not the other way around. It is only by having a basis for giving priority to national over sectional interests in domestic preparations for the bargaining process that a closer match can be established between the expectation of national gains from international negotiations and the outcome of the negotiating process itself.

There is no such discipline in the way domestic preparations for international trade negotiations are structured at present. The mystique surrounding the secretive nature of the bargaining process has provided an opportunity for well-organised domestic interests to ensure that the 'concessions' affecting their industries are minimised. Domestic constituents generally find the whole process bewildering. It should therefore not be surprising that governments are having difficulty mobilising a strong domestic commitment to reduce their national barriers in a trade bargaining context, and to maintain reductions agreed in that context. A domestic process is needed in participating countries to help governments, and their domestic constituents, work out for themselves that the economy-wide benefits from opening domestic markets outweigh the adjustment costs for protected domestic producers.

The case for adding such a domestic process to underpin existing WTO processes is built on both political and economic grounds. It is needed to restore better economic outcomes for countries participating in the negotiating process. And it is needed to help governments resist the pressures they all face from protected producers opposing liberalisation of their domestic markets. That is what made it possible for Australia to reduce its own barriers unilaterally, in the face of strong pressure from powerful domestic groups opposing reform of domestic barriers. Australia's experience is therefore relevant in dealing with the same pressures that all governments face, and which have stalled progress in the WTO. The strength of this approach is that it addresses the problem at its source, while leaving governments in full control of domestic policy.

Australia is well placed to sponsor such an approach in the Doha Round, and to seek US support for it. First, at the 2004 APEC Leaders' Meeting Prime Minister Howard and President Bush both committed to increase access to world markets for developing countries and to take a leadership role in restoring progress in the WTO. Second, the US Trade Representative has already placed the question of domestic procedures on the Doha agenda. Third, the Prime Minister has had a detailed proposal for the WTO under consideration since February 2004. Fourth, there is wide international recognition that Australia's transparency procedures provide the relevant model. Fifth, the opportunity for greater access to world markets should receive strong support from those of our world competitive producers — including our farmers — who missed out in Australia's bilateral trade agreement with the United States.

Sixth, and most important, fixing this problem in the WTO would do more to enhance Australia's future prosperity than any number of bilateral agreements. For instance, the gains at issue for Australia in opening world agricultural markets alone have been estimated at \$4 billion annually.¹ This compares with probable gains of not more than \$50 million from the Free Trade Agreement negotiated with the United States.² The magnitude of the difference tells us where Australia's interests lie, and where our trade policy efforts should be concentrated.

The unique opportunity for Australia to take a leadership role in restoring progress in the WTO poses a challenge for Prime Minister Howard, who has taken personal responsibility for trade policy. While recognising that Australia's interests are best served by the multilateral system, he has justified a policy of negotiating multiple bilateral agreements on the grounds that progress had stalled in the WTO. He cannot continue to hold to that position, however, while ignoring the opportunity he has to help restore progress in the WTO.

1. Introduction: Developments undermining the WTO system

The WTO provides a forum for international trade negotiations and a set of international rules to enforce compliance with the agreements reached. It has no authority of its own, and depends entirely on the agreements its member governments are prepared to enter. It is therefore only as effective as its members are prepared to make it, and (given the power that protected producers have exercised over national decision making) are able to make it. That is the source of its present difficulties, and conveys a great deal about the options available to restore its ability to open world markets.

Multilateral negotiations have been conducted on the assumption that the resulting reductions in trade barriers will increase opportunities for trade, and hence for domestic development in participating countries, on the basis of what each does best. Negotiations in early GATT Rounds involved reducing tariffs, the main form of trade barrier operating at that time. The assumption was realistic then, because the resulting agreements to reduce barriers were effective. This was due to the relatively simple nature of the decision rules involved when tariff reductions were being negotiated. The proportional reductions of tariffs in the 1960s (under the Swiss Formula, for instance) automatically had the greatest impact on the most highly protected (least competitive) industries of each participant. In that environment, international negotiations and agreements achieved a great deal. They were responsible for the very substantial liberalisation that took place among North Atlantic countries.

But the rise of non-tariff barriers (NTBs) over the last several decades, replacing the tariffs bargained away, has meant that multilateral negotiations can no longer be relied on to provide trading

opportunities on the basis of what each country does best. When governments individually seek to minimise adjustment for their own protected industries, by introducing non-tariff barriers to replace the tariffs that have been bargained away, they cannot collectively — through international agreements to reduce trade barriers — increase export opportunities in their respective areas of economic strength.

Although recent rounds of multilateral negotiations have continued to produce substantial reductions in tariff levels in industrial countries, governments have been finding other ways of protecting their least competitive industries. Average industrial tariffs in OECD countries have been reduced from 40 per cent to 4 per cent through multilateral agreements. At the same time, however, non-tariff barriers have grown to the point where they affect about one half of world trade. Many of these take forms that belong to domestic policy and, for that reason, are arguably beyond the authority of international agreements. Governments introducing them have either made use of ‘exceptions’ in the rules for introducing protection (such as for emergency relief, or against ‘unfair’ practices); or exploited loopholes or ambiguities in the rules (such as ‘domestic’ production subsidies and regulations of various kinds); or they have simply occurred outside the international rules (such as ‘voluntary’ export restraints). As a former Director-General of the WTO observed about existing WTO processes: ‘There is a side to the WTO that leaves in the hands of governments many tools of trade protection... There is no shortage of escape routes from international competition... In the end it all comes down to politics.’³

The ‘tariffication’ of non-tariff barriers, agreed in the Uruguay Round, has not stopped governments introducing less visible forms of protection to shield their less competitive industries from the adjustment involved in liberalising. It has simply caused these adjustment-averting devices to be transferred from border to non-border forms, such as production subsidies and the like. These are seen as part of domestic policy, and hence beyond the reach of the international disciplines on which the WTO relies for its authority.

The response to this problem that was adopted in the Uruguay Round involved bringing all existing barriers into future multilateral negotiations, strengthening the international rules governing non-tariff barriers, international surveillance to enforce compliance with agreements and improved dispute settlement procedures.

That response cannot overcome the problem, for three reasons. First, the approach operates only after the event. It catches up with today’s non-tariff barriers only in tomorrow’s multilateral negotiations.

Second, the scope for replacing the non-tariff barriers now in use with others, just as effective, is endless. As existing forms are brought under the authority of international agreements, pressure develops for new forms that fall outside their scope. Many of the new barriers are not only in non-tariff form, they

are also in non-frontier form and are therefore seen by governments introducing them as belonging to domestic policy — and therefore beyond the remit of international agreements.

Third, the approach does not address the underlying problem — pressure at home to avoid the domestic adjustments involved in liberalising domestic markets. It takes place in the international arena between trade officials, and not where decisions about reducing protection are actually made. Backsliding from the Uruguay Round agreements confirms that this approach has not resolved the problem.

The increased use of non-tariff barriers was described in the following way by UNCTAD after a review undertaken for developing countries:

‘Since the birth of GATT there have been a number of negotiating rounds that have dramatically reduced the level of tariff rates in the major industrial countries...It is generally agreed that tariffs do not constitute a significant barrier to imports into the OECD countries. As tariffs have come down, other restrictions on imports have appeared... There seems to be a movement towards less visible protectionist measures...’⁴

In coming to terms with this ‘new’ (non-tariff) protection, negotiations face great difficulties. Unlike tariffs, the new forms of protection lack transparency. Some are seen as involving sensitive questions of ‘domestic policy’. In providing protection in these forms, governments have demonstrated that the external discipline that international rules place on their conduct is no longer effective.

As a result of these developments progress in areas of special interest to developing countries (textiles and agriculture) has stalled, as industrial nations — particularly the European Union, Japan and the United States — continue to preach the benefits of trade liberalisation while succumbing to pressure from their own protected producers to avoid the adjustment involved for them.

Australia’s response to these developments

A struggle has developed in Australia between two quite different responses to these developments. The future relevance of the WTO in liberalising world trade, and an improved trade performance by Australia, may well depend on how that struggle plays out.

The negotiators’ response The processes on which the WTO presently relies have been devised as though international trade negotiations involved only external issues. This has influenced how negotiators have seen their job. When a domestic transparency proposal was tabled in the Uruguay Round to deal with

the domestic pressures that increase the difficulties of liberalising domestic markets, the negotiations that followed resulted in an external surveillance process (The Trade Policy Review Mechanism). Faced with a response that dealt with these pressures where they operate, in the domestic arena of participating countries, the negotiators turned that proposal into another external process. Subsequent experience has shown that the TPRM has done nothing to ease the negative pressures governments face at home, from protected domestic producers seeking to avoid the adjustment liberalisation involves for them.

The prevailing approach to trade policy in Australia — that the gains from liberalising through the WTO system are achieved through external processes — is evident in the language our trade officials use to communicate trade policy developments. It is reflected, for instance, in the often-stated proposition that Australia ‘fights above its weight’ in international trade forums. That is meant to convey that we cast a long shadow in international trade circles and that we usually get more than we give in trade negotiations. A sobering test for this view is provided by the outcome of the recent bilateral negotiations with the United States. Like pronouncements about ‘historic meetings’, ‘early dividends’ and ‘negotiating breakthroughs’, it is part of the theatre that surrounds trade negotiations. It makes no contribution to community understanding of what is at issue in trade liberalisation, and it is this understanding that determines how much liberalisation actually takes place.

So entrenched is this approach that administrative arrangements in Australia still treat trade policy as a branch of foreign policy, as though it is not primarily about establishing the conditions for internationally competitive domestic economic development. As a manifestation of this mindset, our trade officials advised the government against the use of our own domestic transparency procedures — the system of public inquiry and report by the Industries Assistance Commission — when preparing our ‘offers’ for the Uruguay Round. This is the system established in 1973 (and described in Section 4) to provide advice about the future economy-wide consequences of protection changes under consideration by Australian governments. They argued that this would disclose Australia’s negotiating position to other parties in the trade bargaining process: ‘From a trade perspective ... the very process of public inquiry ... advertises to the world the very nature of the Government’s concerns and likely direction of reactions, thereby leaving little or no negotiating possibilities.’⁵

Keeping Australia’s negotiating position secret was considered more important than employing public procedures to help structure our negotiating ‘offers’ — that is, the reductions we were prepared to offer in our own protection — in a way that would enhance national economic welfare. If the then government had acted on that advice the domestic consequences for Australia seem likely to have mirrored those from the Tokyo Round, discussed in Section 2.

The view that our participation in the multilateral system involves only external issues and processes — international negotiations, agreements and rules — has influenced how trade ministers have seen the role of the WTO system. For instance, former Trade Minister Tim Fischer wrote:

‘The role of the WTO in the move towards greater trade liberalisation is the establishment of rules and other commitments by governments and then to ensure that the negotiated balance of rights and obligations is maintained...If the rules are not sufficient...then the solution is to seek to extend or tighten the rules, which is what is done in each round of multilateral trade negotiations.’⁶

He saw the relevance of domestic transparency procedures simply as a means of ensuring ‘domestic implementation of international rules’, rather than as a basis for restoring the national rewards available from multilateral negotiations. He described the present ‘whole of government’ approach as the appropriate basis for dealing with the domestic issues in trade policy. Absent from that approach to policy formulation, however, is transparency — the domestic process that has been the key to community support for trade liberalisation in Australia.

These views reflect the prevailing policy orthodoxy — that international agreements and compliance rules are all that is needed to bring about domestic reform in participating countries. That view was expressed directly by Australia’s trade representative in the Uruguay Round: ‘Agreements with binding rules...enable governments to see trade liberalisation at home.’ He recognised, however, that reliance on these international processes will not open agricultural markets: ‘Some pockets of higher protection would remain, such as agriculture, but that is reality.’⁷

It is this ‘reality’ that the competing response is intended to remove from future trade negotiations.

A response that addresses the problem at its source The competing approach recognises that progress in the WTO (as in all trade negotiations) is determined by two quite separate, and potentially conflicting, processes. One takes place in the international arena, involves trade negotiations and leads to agreements by participating countries to reduce trade barriers. This process occurs between governments, and is part of external policy. The other takes place within individual countries participating in the WTO, and involves decisions about what access to domestic markets should be included in their negotiating ‘offers’. This process is crucial to the outcome of negotiations. All the gains, including those resulting from improved market access and domestic efficiency, for countries participating in the international process depend on what each takes *to* the negotiating table — not what they hope to take *away* from it. In this

second process governments act alone. When they individually succumb to pressure at home to minimise adjustment for their own protected industries, they cannot collectively (through the WTO) increase export opportunities for their world competitive industries. The problem facing the WTO system has its origin in the pressures governments face at home, from protected producers seeking to avoid the consequences of reducing the barriers shielding them from international competition. The domestic trade-offs, between the adjustment for protected producers and the economy-wide gains in prospect, must therefore become an explicit issue in the choices governments make about their own barrier reductions in preparing for negotiations.

The domestic pressures working against better WTO outcomes operate at every stage in the multilateral system: in shaping the national agenda for negotiations; in influencing the agreements reached; and in causing governments to backslide on their commitments to liberalise domestic markets. For instance, they kept agriculture off the negotiating table for thirty years prior to the Uruguay Round; the Uruguay Round agreement on agriculture committed governments to liberalise, yet legitimised action to avoid the domestic adjustment involved in doing so; and the task of making worthwhile progress in opening agricultural markets still lies ahead.

Governments will continue to face strong pressure against reducing domestic barriers unless there is wide awareness, among domestic constituents, of the national economic benefits at issue. A domestic process is needed within participating countries to give priority to national over sectional interests, both when preparing for international negotiations and when petitions are received from protected producers seeking exemption from the agreements reached. That is the role of the domestic transparency procedures that Professor Ross Garnaut and the author have advocated to restore progress in the WTO.

The general thrust of this second approach has been supported by Prime Minister Howard:

‘The dynamic supporting trade liberalisation in democracies will only succeed if communities in each country believe that it is in their interests to liberalise...In the Australian context, the work of the Productivity Commission and its predecessors ... has been fundamental to building and maintaining Australian public understanding of the benefits of greater openness in international competition...Because of the government’s belief in the robustness and transparency of the Australian institutional framework, we have regularly advocated the Productivity Commission as a model for other countries to adopt. If other countries could adopt similar transparent institutional responses, public opinion would be better informed on the cost of trade barriers, and support would be built for good policies in broader areas of industry protection.’⁸.

He therefore confirmed the need for ‘informed public discussion of the economy-wide effects of major trade policy initiatives’, and the government’s reliance on the Productivity Commission to provide the disinterested public assessments required to help public understanding of the economy-wide effects when future initiatives are under consideration.

He has recognised on at least three other occasions since coming to office that public understanding of the national gains at issue in reducing domestic barriers to trade is the key to progress. He has argued that these gains need to be brought into sharper public focus at home, to counter the pressure governments face from protected domestic producers seeking to avoid the (nationally rewarding) adjustment involved for them.

2. The Australian experience: a case study

Most Australians have only a passing interest in arguments about trade policy. The negotiators’ response therefore enjoys acceptance in popular perceptions of what is at issue for Australia, because the competing approach is counter-intuitive. We find it easier to accept the view that opening international markets for our own world competitive industries depends on the performance of our negotiators in exchanging market ‘concessions’ in trade negotiations. It is therefore important to examine the relevance of the two competing approaches against the only test that matters — the consequences for Australia when we have applied them in international trade negotiations.

The Tokyo Round

In the Tokyo Round, Australia approached multilateral trade negotiations (MTN) as though the only gains at issue for us came from access to external markets. Policy toward domestic industry development was pursued separately, as though these two areas of national economic policy were not tightly linked.

Preparing For the Tokyo Round In May 1972 the government asked the Tariff Board, the independent statutory body from which governments sought public advice before changing protection, for a confidential report on reducing Australian barriers in the Tokyo Round. The reference from the government noted that Australia’s participation in the Round would ‘involve the granting by Australia of tariff concessions’ and asked the Tariff Board to examine those areas of the Australian Tariff where ‘rates of duty at present imposed may be higher than are necessary to protect existing Australian production’.⁹ The restrictive terms of reference, a short reporting deadline and the fact that the advice

was sought in a non-public report meant that the advisory process added nothing to public understanding — or to understanding within government — of the likely effects on the Australian economy.

Six years later, in 1978, concern was still being expressed about the lack of information available about the domestic effects of Australia's MTN offer. The Confederation of Australian Industry wrote to the prime minister in the following terms: 'Australia's negotiating position has been developed within government without having acquainted industry with the detailed options and their consequences: we are concerned that an agreement may be reached without regard to its effects on industry generally.'¹⁰

At about the same time the Minister responsible for Australia's negotiating position responded to concern expressed about its domestic effects in the following way: 'It might be that the Government would have to take some steps, but that would be a matter for decision at the time. It would... be very premature for a government in 1978 to be trying to plan or commit itself to a situation which won't occur until 1980.'¹¹

In this way the government itself contributed to uncertainty about the domestic effects of its approach to the negotiations. Apprehension about the domestic consequences was pervasive. This influenced the government to develop a package of 'concessions' intended to produce no visible domestic losers.

In Australia's preparation for those negotiations, barrier reduction was approached as an external commitment. The effects on the domestic economy were a residual outcome of what trade negotiators were able to agree about, rather than a central objective in deciding which barriers to reduce.

Domestic Effects of the Tokyo Round During the Tokyo Round, Australia's border protection was reduced by 40 per cent. While the average level of frontier barriers declined, however, disparities in the levels of assistance between industries increased markedly. It is these disparities that reduce domestic economic welfare when substantial industries continue to be highly protected.¹² These two things occurred simultaneously as a result of reducing protection to lightly assisted industries (partly by using, as negotiating coin, protection they did not appear to be using) and increasing protection, in the form of import quotas, to industries that were already highly protected.

From an international bargaining viewpoint, that outcome was seen as fulfilling our WTO commitment to reduce trade barriers. In reporting the outcome to Parliament, the then Trade Minister confirmed that our negotiating objectives were met: 'Australia has achieved a meaningful and advantageous settlement with the United States, EEC and Japan without reducing the current level of tariff protection on a single tariff item applicable to any manufacturing industry... This was, I believe — I am sure industry agrees with me — a commendable result.'¹³

Australia's purpose in engaging in international bargaining was to secure market access without giving anything away at home. The logic behind our membership of the WTO — to participate in world trade on the basis of what we do best — was turned on its head. Australia's least competitive producers were shielded from adjustment pressure. The increasingly distorted structure of domestic barriers provided less opportunity for international competition against our most highly protected industries, and our world competitive producers were increasingly disadvantaged in their production environment against less competitive domestic industries.

The Uruguay Round

In contrast with our approach to the Tokyo Round, Australia's reduction of trade barriers during the Uruguay Round was not in response to external commitments or to negotiations in Geneva. We were liberalising unilaterally, as part of an ongoing domestic process aimed at making the domestic economy more internationally competitive. Trade liberalisation was being pursued in the domestic arena, for domestic reasons. The domestic trade-offs involved had been resolved through domestic transparency procedures that helped public understanding of what was at issue for national economic welfare. We were able to offer the *unilateral* reductions in our trade barriers to meet Australia's *multilateral* commitments arising from the Uruguay Round.

The largest reductions in Australia's trade barriers, in the 1980s and early 1990s, were made for domestic policy reasons and involved a good domestic understanding of the gains at issue for national economic welfare. One of the industries most likely to be affected said about the prospect of reduced protection: 'MTIA accepts the government's view that Australian industry must become more internationally competitive.'¹⁴

It became accepted, when the domestic choices were visible to domestic constituents, that the overall competitiveness of the economy should receive priority over the adjustment-averting demands of protected domestic producers.

Implications of Australia's experience

The insights provided by Australia's own experience illustrate the need to approach negotiations with 'offers' that will secure the national gains from reducing domestic barriers. When external commitments were perceived as driving our approach to reducing barriers, our least competitive industries were not required to adjust. Subsequently, in a domestic policy context, the less competitive industries that had

been quarantined from negotiated reductions had their protection reduced in order to make the national economy more internationally competitive. Would we have undertaken our own program of protection reform, and accepted the adjustment involved for our less competitive producers, simply to meet external commitments? That question is eloquently answered by our quite different experiences in the Tokyo and Uruguay Rounds. We could address the domestic adjustment consequences of reducing the barriers protecting our less competitive industries when the domestic costs of maintaining them was the issue, but not when the context was trade bargaining.

Australian experience confirms that when reductions stem solely from external commitments, the less competitive domestic industries are likely to be shielded from the resulting barrier reductions. This is almost inevitable when trade negotiations at the other end of the world produce commitments that would have significant political repercussions at home. It diminishes the prospect of multilateral reductions that increase access to external markets for domestic producers who *are* world competitive. If negotiations leave in place a structure of national barriers for each participating country that is not consistent with improved domestic efficiency, and a structure of global barriers that does not allow national participation in world trade on the basis of what each does best, the scope for national gains through the negotiating process is minimised.

Australia's bilateral trade agreement with the United States

Worthwhile gains in national wealth provide the only economic justification for entering into trade agreements — whether these are concluded in a bilateral, regional or multilateral context. The Australian Government has confirmed on several occasions that this principle should not be compromised and that other policies affecting our external relations would therefore be pursued separately — and on their own merit. Yet its conduct in negotiating the agreement with the United States involved domestic processes tailored to support a political decision that, in the end, an agreement would be concluded. In assessing the benefits for Australia, both before negotiations began and after the agreement was signed, the body relied on by successive governments to inform them (and us) about the effects on our future economic welfare was sidelined. Instead of seeking an assessment from the Productivity Commission, in accordance with the Prime Minister's commitment, a consulting firm was engaged on both occasions to assess the gains for Australia. That firm's first assessment, made before negotiations began, was used to suggest annual gains of A\$4 billion. The assessment assumed that the negotiations would provide comprehensive access to US markets. That would involve eliminating all our remaining protection against US competition and all US farm support against Australian competition. The outcome of negotiations meant that these

estimates considerably overstated our gains from the agreement. Yet gains of that order (and higher) were still being quoted to support the agreement after it was signed, as though they reflected the actual outcome for Australia.

US Trade Representative Robert Zoellick described how he approached those negotiations: ‘Trade negotiators live in the real world and in the real world objectives must be balanced by sensitivities...The history books of free trade are filled with agreements that successfully balanced ambition with sensitivities and exclusions’¹⁵

His ‘real world’ was one in which the power of ‘sensitive’ US industries resulted in their exclusion from the coverage of negotiations, or in having safeguards introduced that minimise the scope for international competition. Their power over decision-making in the United States was dramatically demonstrated by Zoellick’s explanation that the extension of farm subsidies, although a backward step, was necessary in order to secure authority to negotiate. Their influence is also evident in the agreed conditions of entry for our farm products. Australian beef producers will have to wait 18 years — and survive several US presidential elections — before any real gains are possible. Under the agreement, as signed, they will then face permanent price-triggered barriers against entry to the US market. Some Australian farm industries will face more immediate hurdles. If the prices to US farmers decline, for reasons that may have nothing to do with Australian competition, a ‘safeguards’ barrier will be raised against them.

When accounting to the US Congress for the outcome of negotiations with Australia, Zoellick explained that on beef: ‘We have an 18-year phase out that Prime Minister Howard personally was pushing to get lowered, which we didn’t lower. And it should work well with our industry...because we only increased the quota for manufactured beef.’ On dairy products he explained that Australian negotiators had been unable to end the protection for US dairy farmers: ‘And, frankly, in terms of dairy, I think we’ve increased our quota — didn’t touch the tariffs one bit — the huge amount of about maybe US\$30 or US\$40 million a year.’¹⁶

How much better would the outcome have been. — for both Australia and the United States — if, instead of using US market power to gain comprehensive access to Australian markets while excluding ‘sensitive’ domestic industries from Australian competition, US negotiators had been prepared to secure the greater national rewards available from reducing their *own* barriers?

As a result of our preoccupation with concluding an agreement, negotiations degenerated into a struggle to find an acceptable compromise on market access that had little to do with enhancing national economic welfare. When justifying the outcome for Australia, officials argued that the agreement deserved public support because it was ‘the best that could be achieved’ and because ‘any agreement was better than none’. As further justification for the agreement, as negotiated, the spokesman for

industry groups supporting the outcome argued that 60 per cent of Australians believed it will deliver substantial net benefits for Australia.¹⁷ This level of public support should not be surprising, given the basis provided to inform public understanding of the outcome for Australia. That basis was the antithesis of the procedures we (and others) advocate, and which had won Prime Minister Howard's support. The confusion and contradictions in the information available hindered, rather than helped, public understanding of what had been achieved. It is a testimony to the power of such obfuscation that in the end no industry group represented by the National Farmers Federation expressed concern about the outcome of negotiations. Each constituent farm industry was persuaded not to oppose the outcome unless its access to US markets will be less with the agreement than it had been without it. If that is the test we apply to future trade negotiations, we are most unlikely to secure gains in either market access or national wealth from the resulting trade agreements. Like the rest of us, farm industries were persuaded on this occasion to accept a view delivered by fiat, not by disinterested analysis, that a bilateral agreement linking ours to the largest economy in the world would bring huge (unspecified) economic benefits to Australia.

Implications for Australian decision-making on trade policy At issue here is not just that Australia gained so little from the agreement with the United States, as negotiated, or that the information made available to Australians at the beginning of negotiations was subsequently used to foster heightened and unrealistic public expectations about the outcome for Australia. A more important issue is whether we have learned from the experience, about how we should conduct trade policy and international trade negotiations in future.

In concluding the agreement with the United States, Australia's trade negotiators clearly felt immune from the processes of domestic accountability to which Prime Minister Howard had committed his government. Yet the developments that have stalled progress in the WTO, and were painfully evident in our negotiations with the United States, demonstrate that the need for public accountability of trade policy conduct at home has never been greater.

The prime minister has established a position on both sides of the argument. On the one hand, he has recognised that nationally rewarding outcomes for countries participating in international trade negotiations depend on the performance of each in reducing its own barriers, and that raising awareness among domestic constituents of the national (economy-wide) gains at issue is the key to that performance. On the other, he has allowed those insights to be ignored in the way Australia prepared for negotiations with the United States and for the Doha Round. In both cases our preparations have sidelined the model he would be asking other countries to adopt in applying the domestic discipline he

sees as the key to progress. The government has restricted itself, as well as the Parliament and community, to the only source of policy advice in Australia (the Department of Foreign Affairs and Trade, DFAT) that believes domestic reform can be imposed from the outside — by international commitments, surveillance and compliance rules.

Trade policy is about tomorrow. It deals in decades, not months or even years. The consequences of government decisions play out over a longer time frame than most other policies affecting the performance of the economy. For instance, the decisions taken in the 80's and early 90's to reduce Australia's dependence on protection are responsible for the benefits we now enjoy from a more open economy. The domestic consequences of decisions taken now will also emerge later, perhaps a decade down the track, beyond the life of the present government. Incumbency therefore confers power to make decisions in the knowledge that a future government will be responsible for their consequences, good or bad. It is precisely for this reason that a domestic transparency process was established in Australia, to provide a public discipline on decision-making about our own trade barriers. That transparency process received support from both major parties when enabling legislation was introduced into the Parliament in 1973, and has since then underpinned bipartisan support for lowering our own trade barriers. Devaluing that process now will reduce the incentive, and need, for future governments to account for the consequences of trade policy decisions they take during their time in office. In that event Australia will be the loser.

The disconnect between the prime minister's support for increased domestic transparency in other countries and his shelving of it at home has created a policy puzzle. Why would a government that is committed to pursuing the fruits of an open economy put bipartisan support for that objective, which is a pre-condition for ongoing domestic reform, at risk? ¹⁸ Ignoring the procedures he has committed his government to observe will see bipartisan support for future trade policy initiatives evaporate. In recognition of that risk, the senate committee established to review the bilateral agreement with the United States recommended that the Productivity Commission should in future be required to provide the analysis needed to inform public understanding of the likely domestic effects of future trade policy initiatives under consideration.

We cannot now change how we negotiated the agreement with the United States, but we can ensure that it does not reflect how we approach trade negotiations in future.

Experience elsewhere

Australia's experience has mirrored that of other countries, which have also been able to reduce trade barriers unilaterally in recent years while having great difficulty doing so to meet external commitments.

For instance, many developing countries (representing 60 per cent of the population of the developing world) have achieved major reductions outside the multilateral negotiating framework. World Bank reviews have shown that their motivation has been overwhelmingly domestic in origin — in many cases in response to adverse economic developments. They have therefore had to resolve the domestic trade-offs involved — between the adjustment costs for uncompetitive industries and the gains for their domestic economy as a whole.

On the other hand, the commitment to liberalise in major industrial nations has been driven by the international bargaining process. Because this process was established to facilitate international liberalisation, it does not incorporate any on-going economy-wide procedural basis for resolving the domestic trade-offs involved for individual participating countries. As a result, two groups of domestic constituents have exerted a major influence over the negotiating strategies adopted. While market access requests have naturally been structured in response to domestic producers seeking external markets, the reciprocal offers of access to domestic markets have been heavily influenced by those domestic producers who feel threatened by liberalisation. As a result of the influence protected domestic producers have exercised over national trade policy, the means used to protect them have been moved further back into domestic policy, and further away from the authority of the WTO.

This was recognised by the IMF in its review of the Uruguay Round: ‘As conventional trade barriers (tariffs, quantitative restrictions) are lowered, attention is shifting to domestic policy instruments (subsidies, regulations) as a source of trade friction between countries.’¹⁹

The agreements reached in the Uruguay Round committed governments to liberalise, yet legitimised action to avoid the domestic adjustment involved in doing so. That ambiguity was necessary to make agreement possible. It demonstrates that negotiations (and the resulting agreements) are no longer sufficient, on their own, to guarantee the integrity of the WTO.

This ambiguity is evident in the way the United States has approached trade negotiations. It has used rounds of multilateral negotiations along with bilateral agreements to attack barriers to US exports, while responding ambiguously to international commitments to reduce barriers protecting sensitive industries at home. While US trade officials have been prepared to use transparency as a weapon to attack particular barriers to US exports, they have eschewed its use as a domestic discipline to deal with those anti-competitive domestic practices and influences that cannot be addressed through international regulation. Such ambiguity in the international arena is reinforced by domestic rules governing administrative protection. Section 301 of the US Trade Act, for instance, gives the US president broad authority to challenge and retaliate against ‘unjustifiable’ and ‘unreasonable’ barriers to US exports.

3. A domestic transparency initiative in the Doha Round

The emphasis that industrial countries have placed on trade liberalisation as an externally generated commitment, together with their ambiguity in trade negotiations, has led developing countries to view the bargaining process as a zero-sum game — in which everyone tries to get as much, and to give as little, as they can. That was evident in the response by the Indonesian Minister for Industry and Trade at the Melbourne World Economic Forum in 2000, who said: ‘The WTO has been functioning for five years, but the rules-based approach has fallen short of our expectations.’²⁰

Australia’s own experience confirms that whether, or how much, liberalisation eventuates from international negotiations depends on what countries are prepared (or able) to do about their own protection, under the constraints and pressures operating in their domestic environment. Progress in liberalising through the WTO has stalled because governments are having difficulty mobilising a strong domestic commitment to reduce their national barriers in a trade bargaining context, and to maintain reductions agreed in that context.

Despite the growing recognition that external disciplines by themselves are not providing a sufficiently strong domestic incentive to reduce trade barriers, there has been no systematic attempt to develop a response to the problem that addresses its domestic causes. A strategy aimed at encouraging offending nations to remove the barriers protecting their farm industries has been canvassed in the Cairns Group. This strategy involves mobilising, within major offending countries, the support of key domestic groups deemed likely to favour agricultural reform. While it may (or may not) help the bargaining strength of the Cairns Group in the present round, it does nothing to strengthen the WTO system itself. When that strategy has run its course, the problem for countries liberalising through the WTO will remain — as it did following a similar strategy in the Uruguay Round. Because it focuses on domestic groups who favour reform and bypasses those who are not, it cannot resolve the domestic issues involved in trade liberalisation or generate a lasting domestic commitment to liberalise.

Since the problem arises from domestic pressures that operate in the domestic political arena, that focus on domestic policy issues, and that exercise power over domestic decision making, it cannot be addressed from the outside or by tightening international (that is, WTO) rules. A domestic process is needed to help ensure that future outcomes from international negotiations more closely match the expectation of domestic gains for participating countries. In view of Prime Minister Howard’s support for such a process, Professor Ross Garnaut and the author prepared a draft transparency proposal to provide a basis for an Australian initiative in the Doha Round.²¹

That proposal sets out the case for introducing a domestic transparency process to underpin the WTO system — by focusing attention on the positive (domestic) reasons for liberalising, rather than on

what are increasingly perceived as negative (external) reasons for doing so. The case we put to the Prime Minister for strengthening the WTO system in this way is as follows:

- The major gains available to individual countries liberalising through the WTO system come from reducing their own trade barriers. These are the gains each country can make by liberalising unilaterally, which do not depend on international negotiations or the WTO system.
- The additional gains available from liberalising through the WTO — those resulting from access to other countries' markets — also depend on what each country does about its own trade barriers. In both cases it involves lowering the barriers protecting their less competitive industries. That is proving to be an intractable problem for existing WTO processes, where the only incentive to reduce protection is to meet international commitments.
- In early rounds of multilateral negotiations, the simple decision rules associated with negotiating tariff reductions were responsible for the very substantial liberalisation that took place in North Atlantic economies. But the forms of protection in use have changed. Pressure from protected domestic producers has caused governments, particularly those in industrial countries, to introduce less visible forms of protection to replace the tariffs negotiated away. While the level of industrial tariffs in OECD countries is now only 4 per cent, non-tariff barriers affect a major part of world trade.
- This new protection is often in non-border forms and is seen (by governments introducing it) as part of domestic policy, beyond the reach of international agreements and rules. That was the case, for instance, with the US action to extend its farm subsidies. The means used to replace traditional forms of border protection with less visible forms have been moved further back into domestic policy, and away from the authority of the WTO. Consequently, the simple decision rules that produced nationally rewarding outcomes when tariffs were being negotiated away are no longer available or relevant. Each new increment of non-tariff barriers, in an already crowded arena, further reduces the scope for multilateral negotiations to liberalise world trade. As a result, the domestic decisions that governments must now make to secure the rewards available from liberalising through the WTO are more complex. In the case of major industrial countries — particularly the EU, Japan and the United States — they involve decisions about forms of protection that are arguably outside the remit of WTO negotiations.
- Countries liberalising through the WTO system therefore have an incentive to invest in the effort now required to counter the negative influences in their domestic policy environments that increase the difficulties of working through those more complex decisions.

- This will involve building into domestic decision making the domestic disciplines and policy logic that operate when countries liberalise unilaterally. In a unilateral context the reason for liberalising is unambiguously to secure the gains in national wealth that result. The domestic trade-offs (between the gains for the economy as a whole and the adjustment involved for protected domestic producers) are resolved as a matter of course. Only one process, and one set of decisions, is involved. The decisions to reduce protection are made in the knowledge that this will mean adjustment for protected producers — the once-only price paid to secure the on-going national gains from liberalising. In that context the domestic trade-offs can be brought into play and resolved, because governments and their constituents have something tangible to hold onto. That process is now the key to progress in the WTO.

Developing countries initiated a program of work during the Uruguay Round to examine the contribution that domestic transparency procedures could make to resolving the difficulties that have developed in the WTO. The Final Act of UNCTAD VII, in 1988, proposed that: ‘Governments should consider as part of the fight against protectionism the establishment of transparency mechanisms at the national level to evaluate protectionist measures and the implications of such measures for the domestic economy as a whole’.²²

The institution identified as providing a model for the proposed transparency mechanisms was Australia’s Industries Assistance Commission (which became the Productivity Commission). The particular qualities of that institution considered relevant for the approach were its public procedures and reports, the fact that its work focused on the domestic reasons for reducing trade barriers, its economy-wide charter, the scope for community participation in its hearings, its independence from executive government, and its purely advisory role. Two former chairmen of that institution were asked to document how that and other existing transparency institutions operate, in order to provide a basis for establishing how the domestic transparency procedures would work. Their response was published by the National Centre For Development Studies, at the Australian National University, in 1996.²³ National institutions with a transparency or advisory function in trade policy were also reviewed in a report published by the Trade Policy Research Centre in London.²⁴

4. Relevance of the Australian model

The relevance of Australia’s domestic transparency procedures in dealing with the developments described in Section 1 is best conveyed by a description of the domestic policy environment in Australia before the Industries Assistance Commission (IAC) was established, in 1973.

In that environment the advice going forward to governments focused almost exclusively on the needs of particular parts of the Australian economy. Governments received separate advice on policies for manufacturing (or parts of it), agriculture (or parts of it), the service and transport sectors (or parts of them) and the mining sector (or parts of it). The segmentation of policy advice produced a ‘parts’ approach to domestic industry development. Economic management was made up of two separate policy ‘worlds’ — the ‘world’ of the sectors and the ‘world’ of the whole economy. The focus was on the whole in macro-economic management, but on sectors when longer-term industry development and trade policy questions were under consideration.

This segmentation of policy produced fragmented, and in most cases closed, systems of advice. Officials, with limited informational capacity, depended on the flow of information from their industry clients. Consequently, they were often unable to preserve the distance from their clients needed for independent analysis and advice. In this situation, individual sectors of the economy were able to ‘privatise’ advice going forward to governments on longer-term issues that had ramifications throughout the economy. In that environment, special interest groups had an incentive to exert covert pressure, both to influence the opinions of officials and to seek to have people sympathetic to them appointed to the positions responsible for formulating advice. Vested interests developed inside government as well as outside it, so that a mutually supporting bureaucracy and industrial interests commanded a great deal of power over decision-making. This interaction between special interest groups and those responsible for decision-making on protection was natural, indeed inevitable, in that environment. It caused decisions on protection to get out of line with those required to secure the national rewards available from reducing domestic barriers to international competition. The policy environment at that time has been documented by Alf Rattigan, the last chairman of the Tariff Board and founding chairman of the IAC, which replaced it.²⁵

Creation of the IAC in 1973 signaled the Australian Parliament’s wish to ensure that the economy-wide view quite consciously taken in formulating budgets was carried over into policy on longer-term industry and trade policy issues. The legislation creating the IAC provided it with the charter required to ensure that its advice to governments would be disinterested, open to public scrutiny, and formulated from the perspective of *national welfare*, not the needs of particular producer groups. This involved:

Independence: The agency was created as an institution independent of both the political process and of any industry-specific branch of government. Its independence and economy-wide charter provided a public safeguard against decision-makers wanting only ‘yes’ for an answer when seeking advice on policy initiatives under consideration. It was, however, established as an advisory body only, with no judicial, executive or administrative functions.

Economy-wide charter: It was given a mandate to systematically inquire and report on all forms of government assistance to industries throughout all sectors of the economy, and to evaluate these in terms of their economy-wide effects.

Openness: To facilitate community understanding of the economic consequences of particular proposals for protection, it was required to hold public hearings and to make its reports available to both the government and public.

Statutory Guidelines: Its charter provided general criteria to guide it when reporting on protection (trade barriers). These required it to base its recommendations on the *public* gains (in national wealth) at issue for the community as a whole in changing or introducing protection, rather than on the *private* gains or losses at issue for particular groups of economic agents.

The Commission's charter was markedly different from the system of advice it replaced.

The enabling legislation drew a distinction between the transparency agent's responsibility for advice and governments' responsibility for decisions on protection. While governments were required to seek advice from the IAC before taking action on protection, they were not required to act on the advice. This preserved the autonomy of governments over policy, while introducing transparency and an economy-wide perspective into the advice going forward to them.

It would, of course, be misleading to leave the impression that the Commission's analysis and advice would always be adequate or complete. If (or when) this was not the case, the public scrutiny provisions included in its charter ensured that any blemishes would be brought to the government's attention. That provided a powerful discipline on its performance.

The prospect of this new system of advice generated tension among those advisers and decision-makers who had been comfortable with the old arrangements. This is evident in the response of a former minister responsible for trade policy, Doug Anthony, when the bill to establish the IAC was being debated in the Parliament:

'What this legislation means, of course, is the end of the long-established and successful system under which industry policy has been devised — the system of discussion, consultation and negotiation between industry and government. This legislation means that it will be quite pointless...for industry to put its views directly to the government, to ministers, or to government departments...The access which industry of all kinds has had to the government through its contacts with ministers, with members and with government departments will, if it does not cease,

become pointless...Governments are very reluctant to be accused of being influenced by vested interests.²⁶

His, however, was a lone voice in opposing the change. The legislation was supported by the major political parties in both houses of Parliament.

One important consequence of the transparency arrangements operating in Australia since 1974 is that the community has been engaged directly in the process by which advice on protection (trade barriers) is formulated. The Commission's contribution in helping governments open domestic markets has therefore involved more than simply raising the visibility of particular domestic barriers to trade; it has also helped community understanding of their economy-wide effects. Its role has been to provide the information domestic constituents (and the national executive) need to reduce the political costs of liberalising, by making the consequences for the Australian economy more transparent. Transferred to a WTO context, those domestic procedures are needed to help participating governments realise, in their domestic policy conduct, the worthwhile objectives about which they express strident collective agreement when they meet in Geneva. Their contribution in restoring the multilateral system is to make domestic economic welfare, rather than domestic political pressures, the driver in multilateral trade negotiations.²⁷

The Commission's performance in building public support for an open economy has been widely recognised. For instance the OECD observed, after a comprehensive survey of domestic transparency arrangements in member countries, that:

'...the Industries Assistance Commission ...has had some notable success in publicising the economic consequences of proposed subsidies programs in Australia and thus influencing public opinion with regard to these. Its efforts seem to be conducted on an on-going basis and thus stand apart from other institutions.'²⁸

The Brookings Institution in the United States cited the Australian institution as a model for what could be achieved in the United States:

'If programs are to be made more consistent and effective, it must be determined what current policies exist and what their costs and effects are. A first step would be to create a new government agency,...patterned on the Industries Assistance Commission (IAC) in Australia.'²⁹

Other international recognition of the Commission's performance in building domestic understanding of the national gains from liberalising domestic markets is documented in Section 5.

Apart from these observations from external sources, both logic and our own experience confirm that it is unrealistic to install a system of international rules and expect it, by itself, to deliver domestic reform. These rules do nothing to correct the negative perception, fostered by those facing adjustment at home, that liberalisation simply hurts domestic producers for the benefit of foreigners.

From an international perspective, progress in the WTO depends on building onto its existing international processes an additional (domestic) process which recognises that trade policy — that is, policies affecting international trade flows — does not begin and end in the international arena, but is the international dimension of national policies adopted for domestic reasons. A solution to the problem now facing the WTO must therefore include a domestic process that can address its domestic causes, rather than continuing to rely solely on international processes that cannot.

From an Australian perspective, we will continue to carry extra lead in the saddle when we go to future rounds of multilateral trade negotiations until this issue is faced squarely. If we choose not to face it, we will have worked through the domestic adjustment involved in securing the production environment needed for export industries that reflect our competitive strengths while pre-empting the possibility of securing the market environment they need to enhance our trade performance.

In the light of the IAC's performance in helping public understanding of what was at issue in reforming our protection, successive Australian governments (of both political persuasions) have extended the IAC's original remit beyond, but still including, protection. That suggests a high level of public and political confidence in the performance of the open system of advice it represents. Yet in pursuing its current trade policy initiatives — in the Doha Round and in preparing for bilateral trade agreements with China and other countries, all of which have ramifications throughout the economy — the present government is side-lining that open system of advice. If its intention is to avoid receiving public advice that it may not wish to hear, we should be worried. Whatever its motive, however, it is demonstrating that it does not regard the public accountability discipline provided by the Commission in other areas of long-term economic policy as having relevance for its conduct of trade policy. Private interest groups with a stake in the outcome of particular trade policy initiatives may see this as signalling a return to the processes that characterised decision-making in the past — when community involvement in preparing for trade negotiations was anathema and when policy on issues affecting the longer-term performance of the economy was devised through 'the system of discussion, consultation and negotiation between industry and government', so eloquently described by former Trade Minister Anthony.³⁰

It is clear where this has the potential to lead. At a recent parliamentary inquiry reviewing Australia's approach to the WTO, for instance, the Australian Chamber of Commerce and Industry suggested that:

‘While commerce and industry sees merit in...engaging the community in matters of national importance, we would question the net benefit...to our trade policy.’³¹. No section of the community is excluded from the transparency procedures that operate when we reduce protection unilaterally. Since the domestic issues are the same, why should there be less community involvement when we prepare to reduce protection through the WTO? If ownership of the domestic processes through which governments establish their negotiating position is restricted, so will be the domestic commitment to liberalise. The argument for liberalising domestic markets cannot be won in this way.

The relevance of the Australian model in the approach we prepared for Prime Minister Howard is that it addresses the problem facing the WTO at its source. Governments will always be under pressure from protected producers to avoid the adjustment involved in meeting international commitments to reduce trade barriers until those they represent are persuaded that the national benefits this makes possible outweigh the adjustment costs. The approach operates at home, in the domestic policy environment of WTO member countries, where the positive or negative perceptions about the domestic consequences of liberalising hold sway and where decisions about protection are made. It makes its impact on decisions as they are being made, not after the event, and leaves governments in full control of domestic policy. It involves public participation in the process through which advice on protection is formulated, thus increasing the likelihood of a more comprehensive domestic commitment to liberalise. And it raises public awareness of the larger national rewards from reducing domestic barriers, thereby arming governments against pressure from protected domestic producers seeking to avoid the adjustment involved for them. As the key decision-making process moves back into the domestic policy arena of participating countries, governments become more accountable for WTO outcomes.

Reducing the complexity and mystique that has surrounded the existing rules-based system also reduces the need for the myriad trade lawyers, trade strategists and fly-in experts that have accumulated around the WTO. The language in which the WTO is usually discussed tends to obscure, for those not familiar with it, what is at issue in trade liberalisation. The clarity of what is at issue for countries liberalising through the WTO — to secure the gains in national wealth from engaging in world trade on the basis of what they do best — has been corrupted into the language of trade lawyers, which is unintelligible to ordinary folk.

An initiative to restore an effective WTO system must therefore satisfy three requirements. First, it must include procedures and criteria for changing protection in participating countries that focus advice and decision making on the national (economy-wide) benefits of liberalising domestic markets. Protected domestic producers who felt they would be adversely affected by barrier reductions that are widely perceived to be nationally beneficial would then find it more difficult to get public support for

resisting market opening commitments. It is the positive or negative perceptions held at home about the domestic consequences of liberalising that ultimately determine how much takes place. Second, it must enable WTO procedures to begin with domestic decisions that resolve the domestic (unilateral) issues involved in liberalising through the WTO and culminate in international negotiations and agreements to reduce protection — rather than the other way around. The domestic commitment to accept the adjustment involved can then result from decisions based on what is nationally rewarding, rather than emerge as the accidental outcome of a balancing act — in the international arena — between the market-opening requests of foreigners and the market-closing demands of protected domestic producers. To satisfy these requirements, the policy advice about the economy-wide effects of changing protection (trade barriers) must be generated as a routine input to decision making in national capitals, whenever protected producers petition governments to be excluded from the coverage of negotiations or from the commitments taken to reduce protection. Third, it must respect the autonomy of national governments over domestic policy issues. The challenge is to develop arrangements that will achieve these objectives.

There are obvious difficulties in advancing a proposal for domestic transparency procedures in an environment of international bargaining. The established approach, involving negotiated agreements based on reciprocity, is itself part of the problem. The first step in the proposal we prepared for Prime Minister Howard therefore involves establishing a Transparency Commission within the WTO, at arm's length from the negotiating process, as part of the Doha Round outcome. Experience with a similar initiative in the Uruguay Round confirms the importance of separating the Commission's role from the negotiating process.

The Transparency Commission would not replace any existing WTO process. It would comprise no more than (say) six people of substantial standing in public affairs in their own country — people with a sound understanding of the role of international trade in domestic economic development.³² We suggest it should have access to the resources of a secretariat, and could draw on the work commenced by UNCTAD at the end of the Uruguay Round.

The initial task of the Transparency Commission would be to review existing domestic transparency arrangements in member countries. It would be required to report on the arrangements needed to:

- help governments secure the economy-wide domestic gains available from reducing their own barriers when preparing their 'offers' for multilateral trade negotiations, and thus

- help neutralise the pressures generated by protected producers seeking to avoid the (nationally rewarding) adjustment this would involve for them.

After discussion of its report in the Doha Round, and once agreement is reached about the way forward, the Commission would be responsible for helping national governments implement the resulting domestic procedures. In fulfilling that role it should not be given any power, actual or implied, to enforce introduction of the agreed domestic procedures. Instead, it would rely on demonstrating to its clients why the gains they hope to *take away* from international negotiations now depend on what they (and other WTO countries) *take to* the negotiating table.

Implementation of the agreed procedures would require the ongoing attention of the Commission, and it would be unwise to set a timetable for its completion. It does appear, however, that the countries most in need — and therefore first in line for attention — are the major industrial countries. Their pre-occupation with market access has undermined domestic understanding, within those countries, that the major gains from liberalising in a multilateral context depend on what they do about their own barriers.

A domestic transparency initiative by Australia in the Doha Round would give substance to the Prime Minister's commitment, taken during the recent APEC meeting, to help restore progress in the WTO. It would be consistent with the WTO Ministerial Declaration, of November 2001, confirming the 'collective responsibility to ensure internal transparency.' The US Trade Representative has already proposed that WTO members meet to examine trade policy procedures at home:

'Recognising that individual governments bear the primary responsibility for consulting with their own constituents when they formulate trade policy, the US ...proposes that WTO Members discuss their respective consultation processes in Geneva to learn from each other how to ensure that the view of interested members of the public are taken into account.'³³

These developments provide an opportunity for Australia to advance a proposal for a domestic transparency process based on our own experience.

If there are other ways to advance the issue in the WTO it will become obvious during Doha discussions. Opening discussion of it in the WTO now is an unexceptionable, but crucially important, first step in restoring confidence (and progress) in the multilateral system. There is nothing in existing WTO processes to help participating countries deal with the anti-competitive influences in their domestic

environments that have stalled progress in multilateral negotiations. And there is no alternative approach on offer, or in prospect, to deal with those negative influences.

5. Support for the approach

Support for domestic transparency arrangements to underpin existing WTO processes was provided in the Leutwiler and Long reports (commissioned during the Uruguay Round), by developing countries (in UNCTAD V11) and the IMF (in its review of the Round). It was supported at meetings of trade ministers in Bali (January 1988) and of Commonwealth representatives in London (July 1988). A proposal embodying the approach was tabled in the special negotiating group on the functioning of the GATT system (the FOGS Group). It was placed on the 'backburner' during the Uruguay Round, however, to make it easier to resolve issues of greater immediacy.

Following its review of the Uruguay Round, the IMF concluded that:

'Governments can play a key role in helping to tip the balance of political forces in favour of trade liberalisation. They can do so, in part, by helping to lift the veil of complexity that often conceals the net social costs associated with protectionist trade policies. Mobilising political support for liberal trade can be facilitated by systematically exposing the implications of trade measures (which at times are effectively buried in the esoterica of trade legislation) and evaluating the associated costs for the economy as a whole.'³⁴

The need to address the problem is also being recognised in other WTO countries. The importance of winning the argument at home has been acknowledged by several past US negotiators. Deputy Trade Representative Richard Fisher observed in 1999, for instance, that: '...if trade negotiations proceed in secrecy, if the WTO is unacceptable to the public, then we can expect tariffs to grow and support for open trade to erode.'³⁵

Dr. Clayton Yeutter (US Trade Representative in the Uruguay Round and subsequently Secretary of Agriculture in the Bush Senior Administration) has described such procedures as 'relevant to the trade policy decision-making process in all countries'. The approach also received strong support when Garnaut introduced it to a meeting of British and European trade policy analysts and practitioners at Chatham House, in December 2003.

These views come from people who have actually experienced the difficulties of implementing trade liberalisation at home. They reflect an emerging consensus that external commitments are not providing a persuasive domestic reason for lowering trade barriers; that it is the positive or negative

perceptions at home about the domestic consequences of liberalising that determine how much liberalisation takes place; that it becomes politically realistic to secure nationally rewarding outcomes from international negotiations only when pressure from domestic groups, who see liberalisation as detrimental to their interests, is balanced by a wide domestic awareness of the overall domestic benefits of adjusting to the changes involved. Groups engaged to examine the problem during the Uruguay Round all concluded that the functioning of the WTO system must be linked more closely to the domestic choices faced by participating countries. An understanding of the domestic consequences of these choices can then be incorporated into their conduct of trade policy — at home and in the WTO.

While there has been substantial international support for the approach, it has received no support from Australia's trade officials. That, however, should not be surprising. Because their focus has inevitably been on the international processes that constitute their policy remit, they have not engaged with the developments discussed in Section 1 and the overview.³⁶ As a consequence, DFAT is now unable to offer an approach that deals with the domestic pressures responsible for stalling progress in the WTO. Its only response to date has been to divert attention from the issue, by talking up the gains expected from the bilateral agreements being negotiated or in prospect — and pretending that these are now the main game. Its website proclaims that ‘.the Australian Government’s agenda for free trade agreements is the most exciting and dynamic development in Australia’s trade policy history.’³⁷ More exciting, it seems, than doing the hard yards required to help fix the WTO system.

Australian industry and business groups, on the other hand, have long recognised the developments that have stalled progress in the WTO. For instance, the New South Wales Chamber of Manufactures observed as long ago as 1992 that:

‘The multilateral approach to tariff reduction...has been accompanied by a simultaneous increase in non-tariff trade barriers...While these protectionist policies are directly detrimental to Australian agriculture, they should not eclipse the problems that Australian manufacturing confronts with non-tariff trade barriers in the development of new export markets. If the Australian Government fails to address these issues, it will mean the loss of potential markets to the growing influence of the world’s various trading blocks and bilateral trade partnerships.’³⁸

NSW farm organisations commented as far back as 1995 that:

‘Australia is now in danger of locking itself into yesterday’s approach to trade reform...Governments can get up to all kinds of games in cheating on rules to protect domestic political interests...Australia provides a classic example of how domestic transparency can change the debate on industry

protection...A public informed of the costs and benefits of trade intervention by government will create the countervailing domestic political pressures to prevent backsliding'.³⁹

And the Business Council of Australia observed as early as 1993 that:

'The world trading system, post the Uruguay Round, will need to be strengthened against new forms of protection which are likely to grow to circumvent GATT rules and agreements. This would be a continuation of a trend which emerged in the 1970's through which countries resorted to a range of non-tariff and often disguised protective devices to circumvent GATT rules. Whilst these non-tariff barriers are under assault in the Uruguay Round, the likelihood of a re-emergence of new forms of protection needs to be acknowledged.'⁴⁰

Recognition that Australia's experience is relevant in addressing these developments is evident from the interest now being shown by Australia's international trade economists and trade policy analysts. The need to win the argument at home has been argued by David Trebeck, former chief executive of the National Farmers' Federation, who in earlier years played a key role in raising awareness in the Australian farm community of the need to liberalise our own trade barriers. In arguing the importance of domestic transparency procedures in opening world agricultural markets, and in increasing export opportunities for Australian farmers, he observed: 'Against the concentrated advocacy of vested interests, the wider and longer term interest is frequently swamped within the political process — especially if elections are looming. Changing this dynamic is the key to making progress in agricultural trade reform.'⁴¹

More recently, Professor Peter Lloyd has reviewed our existing trade policy advisory processes and decision-making, and concluded (as have two recent parliamentary enquiries) that Australian governments should be required to seek competent and public advice, at arm's length, before taking future trade policy initiatives: 'The Executive arm of Government should be required, by legislation, to send a reference to the Productivity Commission, requesting it to report on any prospective bilateral or multilateral trade treaty and on unilateral changes to tariffs and other trade policies.'⁴²

Dr Andrew Stoeckel, of the Centre for International Economics, has recently published an evaluation of what is needed to restore progress on agriculture.⁴³ He suggests introducing domestic transparency arrangements within WTO member countries by extending the Trade Policy Review Mechanism (TPRM). His support for a domestic process to strengthen the WTO system is welcome. His proposal to link it to the Trade Policy Review Mechanism, however, may be counter-productive. It gives the WTO secretariat responsibility for auditing the performance of domestic procedures introduced by,

and operating within, participating countries. That repeats an approach developed, and subsequently abandoned, by Rattigan and Carmichael in 1996. The TPRM has failed because it is seen as an external surveillance process conducted by trade officials, and as a reporting requirement that has no relevance for domestic decision-making. This was evident in the view expressed by developing countries:

‘The Trade Policy Review Mechanism ...is not a national transparency mechanism. Although this exercise contributes to transparency, its ultimate aim is to increase adherence to GATT rules...The ultimate aim of national transparency mechanisms...is to generate information about, and to promote a wider domestic understanding of, the economy-wide effects of protection in all its forms’.⁴⁴

That is also how the TPRM has been viewed by Australia’s trade officials, who helped sponsor it in the Uruguay Round. When responding to an earlier proposal to give it a stronger focus on the domestic issues involved in trade liberalisation, the Department of Foreign Affairs and Trade replied that: ‘Australia was active in the Functioning of the GATT System Negotiating Group in giving the TPRM as much domestic focus *as is relevant to a multilateral surveillance mechanism (sic)*’.⁴⁵

The TPRM is perceived, especially by developing countries, to be beyond repair. It cannot now be turned into an agent of domestic reform. The WTO charter recognises that the sovereignty of individual member countries is absolute and inviolate. For that reason, ownership of the domestic process must reside, and be seen to reside, where responsibility for future progress in liberalising world trade now rests — in the domestic policy environments of individual countries. This principle is of paramount importance for acceptance of the additional WTO process by participating countries, and would be compromised by attaching it to the failed TPRM.

The argument for underpinning multilateral negotiations in this way needs to be put squarely in Doha discussions. The logic on which it rests, while rock solid, is counter intuitive. Public understanding of what is at issue is not enhanced by promoting bilateralism one week and multilateralism the next, or by talking multilateralism while practicing bilateralism. That ambiguity increases the difficulty of restoring the WTO system. While confirming that Australia’s interests are best served by the multilateral system, and that it remains ‘absolutely’ committed to the WTO system,⁴⁶ the government has justified a policy of negotiating multiple bilateral agreements on the grounds that progress has stalled in the WTO. Strong Australian political leadership, acting with strong US leadership on the shared commitment to restore nationally rewarding multilateral negotiations, is needed to advance the issue in the Doha Round.⁴⁷

6. Some questions raised about the approach

A number of questions have been raised about this approach. The four most relevant are: whether developing countries have the resources to introduce it; whether it will be seen as thrusting Australian institutional arrangements on other countries; why the Australian Government should be promoting it at this time; and whether Australia's domestic procedures in negotiating bilateral trade agreements provide the model required to restore the WTO system?

Do developing countries have the resources, or the inclination, to introduce the domestic procedures involved in the approach?

Developing countries are not responsible for creating the problem. Many have achieved major reductions in protection outside the multilateral negotiating framework. An increasing number, representing about 60 per cent of the population of the developing world, have been liberalising unilaterally. In addition, a growing number of countries with command economies are beginning to liberalise as they move to market economies.

In general, these countries are liberalising unilaterally to make their domestic economies more competitive. In that context, the domestic tradeoffs are resolved as a matter of course. Only one set of decisions, and only one process, is involved. The decision to reduce protection is made in the knowledge that it will involve adjustment for protected domestic producers.

In major industrial countries, on the other hand, the commitment to liberalise has been driven by international bargaining through the GATT and the WTO. In that context the focus is on access to external markets, not on liberalising their own markets. Each round of international trade negotiations is seen as another opportunity to gain access to other countries' markets. As a consequence, interest in the domestic issues in liberalising has been (at best) intermittent — revived every ten years or so as each Round of multilateral negotiations becomes due. This approach to the WTO has produced ambiguous negotiating objectives — increased access to world markets with minimum adjustment at home — and, consequently, ambiguous negotiating outcomes.

It follows that industrial countries have the greatest need to introduce domestic transparency procedures. Their pre-occupation with market access has undermined domestic understanding in those countries that the major gains from liberalising in a multilateral context depend on what they do about their own barriers. The industrial countries needing those procedures most are the EU, the United States and Japan.⁴⁸ Because worthwhile progress in the WTO now depends on it, as do their own gains from participating in the multilateral system, they have an incentive to invest in the effort required to approach

negotiations with a good understanding of the economy-wide effects of the choices they make about reducing their own barriers.

Will the approach be seen as thrusting Australian institutional arrangements on other countries?

This question arises from the widely canvassed conclusion that the procedures of Australia's Industries Assistance Commission provided the relevant model. That view has been expressed by developing countries, by past Directors-General of the GATT and WTO, by the Brookings Institution in Washington, by the US trade representative in the Uruguay Round and more recently by Prime Minister Howard.

The approach is about domestic processes, not institutions. What matters in dealing with the influences that have brought the WTO system to its knees is the processes supporting an open system of advice, at arm's length from decision-makers. Even if the Australian model didn't exist, in advancing the approach we would still need to argue for the charter and domestic processes on which its advice was based. If there are other models for addressing that need, these will emerge during the review by the proposed Transparency Commission.

As mentioned earlier, developing countries are not the bad guys responsible for stalling progress in opening world markets. The major industrial countries are the culprits. The fundamental deficiency of the US International Trade Commission (USITC), for instance, is that while its procedures promote transparency, its role is to provide relief from international competition on the basis of criteria that focus on the problems import competition poses for individual industries. The broader effects of such competition, on the economy as a whole, are not brought into account in formulating advice about whether to provide relief. While its procedures make transparent the problems of ailing industries, the President is left to decide on the economy-wide considerations without the benefit of such procedures. In the case of the United States, therefore, the action required to introduce the approach is simply to add to the existing charter of the USITC a guideline requiring it to bring the economy-wide consequences into account when formulating advice about protecting domestic industries.

The challenge for the major industrial countries is to build into their preparations for international negotiations the economy-wide perspective and domestic commitment that is brought into play when countries liberalise unilaterally.

Why should Australia be promoting the approach at this time?

Australia has already secured the bulk of the gains available from liberalising its own barriers. The major part of the remaining gains, those available from participating in the multilateral system, will depend on what other countries do about their barriers. The approach we (and others) advocate recognises that

nationally rewarding outcomes for other countries participating in the WTO depend on what each does about its own barriers. The approach therefore promotes their interests and ours. It will increase their rewards from participating in multilateral trade negotiations. And it will encourage the barrier reductions that will enable Australia to secure the remaining gains available from trade liberalisation. Australia's existing approach, and the existing processes of the WTO, can no longer do that.

Prime Minister Howard has emphasised that an improved trade performance by Australia is crucial to our future prosperity. The current account deficit, now running at about 7 per cent of GDP, is higher than in 1986 when then Treasurer Paul Keating issued his 'banana republic' warning. The accumulation of large current account deficits has taken net debt to its highest ratio to GDP ever — over 50 per cent. It is now more than twice the value of our international earnings from exports and investments. Whether or not we believe this level of foreign debt poses a threat to future prosperity, the government's capacity to realise its commitments on defence, on health and education services, and on meeting the needs of an ageing population underlines the imperative to improve our economic performance generally. Trade policy has (potentially) a significant contribution to make in achieving that improved performance. In the light of its concern about the rising current account deficit, and the importance of trade for our continued prosperity, the government has a strong incentive to take whatever initiatives are available and relevant to improve Australia's trade performance. In that context, it has a choice between the two competing responses on offer. It can promote an approach in the Doha Round that *can* address the developments that have stalled progress in opening world markets, or it can continue to rely on international processes that *cannot*.

Our future production for export will develop in response to the available market opportunities. As Professor Ron Duncan has pointed out, this has profound implications for our future export performance and for our ability to promote internationally competitive domestic economic development.⁴⁹ If governments continue to meet WTO commitments to reduce protection in ways that minimise adjustment for their own protected industries, the scope for Australia to develop export industries based on our competitive strengths will be minimised. If Australian industries that could compete in world markets without assistance continue to be closed out of export markets as a result of these developments, either our trade performance will decline or we will have to rely increasingly on exports that are artificially competitive (that is, needing to be subsidised directly by Australian taxpayers or indirectly by Australian consumers). The problem will not go away. Unless we exercise the opportunity that we now have to propose a solution that addresses the domestic causes of the problem that has developed for the WTO, our access to world markets will be influenced less and less by the agreements

reached in Geneva and more and more by the adjustment-averting pressures governments face at home. That, however, is not the only cost at issue for Australia.

In responding to the transparency proposal prepared for him last year, Prime Minister Howard confirmed the need for the Productivity Commission to provide the disinterested public assessments required when 'major trade policy initiatives' are under consideration. In the absence of such disinterested public assessments the advice going forward to government will rest with DFAT officials, whose experience and policy remit is limited to the international processes involved in trade policy. There must be a serious risk (based on their track record) that they will again advocate a solution to our trade and domestic economic problems that does nothing to improve our trade performance, but which has potentially serious negative consequences for the government's domestic policy objective of promoting an internationally competitive industry structure. The last time an Australian government was struggling with a worrying trade deficit, farm exports appeared to have stagnated and manufacturing exports were in (temporary) decline. In the light of these developments DFAT, which has responsibility for policy toward exports, urged the government to promote high-tech 'sunrise' industries as a response to the problem. In the event, the high-tech bubble burst world-wide and the preferred industries were consequently able to contribute little to our export performance in the relevant time-frame. Meanwhile the manufacturing sector, which had become more world competitive as a result of major (policy induced) structural change, increased exports dramatically. As the body established to provide advice on the domestic side of trade policy observed:

'When officials seek to persuade governments to select particular 'sunrise' industries for export development they are attempting to hasten history. They are making judgements that trends in world markets are a reliable basis for predicting future opportunities; that Australian production will be internationally competitive in those industries in the future trading environment; and that Australian producers are incapable of working this out for themselves.'⁵⁰

Those judgements, and their attendant risks, are also in play when particular markets (such as the United States) are singled out as a preferred basis for our future export opportunities.

This does not mean that a strong trading relationship with the United States is not in Australia's interests. But it does mean that such a relationship, offering worthwhile benefits for both countries, will not emerge from the bilateral agreement that has been negotiated. A much more rewarding relationship, for both countries, would result from an effectively operating multilateral system. Attempts to force the issue, by picking particular 'market' winners, share the same characteristics as the earlier proposal by DFAT

to promote particular ‘industry’ winners. Failure to properly assess the future consequences of such trade policy initiatives poses a threat to both our trade performance and to a domestic industry structure capable of adapting to the changes occurring in the world trading environment.

The view that we can continue to secure worthwhile gains in world markets through international processes alone — through trade negotiations, agreements and compliance rules — no longer provides a viable basis for trade policy. The developments outlined in Section 1 and the overview set the limits on what can be achieved through those processes.

Australia is a small player in world trade, but on this issue we have an opportunity to influence events by the relevance of the approach we offer to deal with it. We can continue to fiddle around the edges of the problem, sponsoring ad hoc strategies to enhance our negotiating position in particular markets in the Doha Round, or we can promote a more comprehensive (and less intrusive) solution — by ensuring that a proposal to add a domestic discipline to existing WTO processes is on the table when Doha discussions resume.

Do Australia’s domestic procedures in negotiating bilateral trade agreements provide the model required to restore the WTO system?

Prime Minister Howard’s commitment to facilitate public understanding of the domestic effects of major trade policy initiatives is not reflected in the way Australia is preparing for bilateral negotiations. The econometric modelling included in the ‘scoping’ and ‘feasibility’ studies released in preparation for negotiations project only the *potential* or *possible* gains for Australia. They do not, and cannot, project what will *actually* be achieved from the ensuing negotiations. The complex technical projections are usually undertaken with a high level of professional competence, and are therefore not problematic in themselves. A problem develops, however, when they are subsequently used to create an unreal public perception about the outcome of negotiations. That is what happened in the only recent bilateral agreement completed — with the United States. The very modest result for Australia from those negotiations meant that the projected gains made available at the outset conveyed nothing about what we eventually achieved from the negotiations. Yet they were still being quoted to support the agreement after it was signed, as though they reflected the actual outcome for Australia. In the absence of a disinterested assessment of the agreement, as negotiated, the difference between the *potential* or *possible* gains and those *actually* achieved became blurred for us. Community understanding and acceptance of the agreement did not result from the transparency arrangements the Prime Minister had committed to maintain, but a lack thereof. Australians simply succumbed to official assurances that the agreement would bring substantial, albeit unspecified, national economic benefits.

Those same processes are at work in Australia's preparations for other bilateral negotiations. The feasibility study on an agreement with China, for instance, has also relied on projections of possible gains for Australia. Although those projections are appropriately qualified in the body of the study, they are subsequently used without qualification to support the conclusion (posted on the DFAT website) that 'there would be significant economic benefits for...Australia...*through the negotiation of an FTA (sic).*' Such a conclusion could not be drawn from either the projections of *possible* gains or from the outcome of negotiations, which had not yet begun. As happened in negotiations with the United States, the all-important distinction between *possible* gains (as measured in the econometric projections) and the *actual* outcome of (future) negotiations becomes blurred. This is evident, for instance, in the study's conclusion that: 'Australian merchandise exports to China are estimated to increase by around A\$4.3 billion or 14.8 per cent in 2015 as a result of the FTA (sic).' The contribution that this slide from *possible* to *actual* outcomes makes to community understanding is reflected in a *Sydney Morning Herald* editorial comment, following release of the study: 'The government has released a feasibility study which *promises (sic)* a \$24.5 billion bonanza for Australia from the China deal *over the next decade (sic)*'.⁵¹

While the study has been used to create this quite specific public expectation about the magnitude of our gains from negotiations, and that those gains will materialise over the next decade, Prime Minister Howard responded to concern expressed about the adjustment implications for our most vulnerable (standard technology, labour intensive) industries in the following way: 'It is too early to be talking about what one may say in a particular situation to a particular group of people who have yet to be affected and who may not be affected by government decisions which have yet to be made at some indeterminate time in the future.'⁵²

We are left to conclude that the projected (possible) gains from negotiations (which had yet to begin) are in the bank, while a policy to deal with the resulting adjustment for those industries most vulnerable to Chinese competition is premature. Whether intended or not, the effect is to encourage a quite positive public expectation about the outcome of negotiations which has no basis in fact. This is probably inevitable when the information available to the community is delivered by officials whose job it is to sell the agreements being negotiated. It confirms the need for a public review by the Productivity Commission of future bilateral agreements, as negotiated, before they are ratified in the Parliament.

The processes currently used to explain the future consequences of bilateral negotiations have clouded our understanding of what is at issue for Australia. If those processes reflect our trade officials' understanding of the role of domestic transparency in helping governments reduce their own trade barriers, DFAT has nothing to contribute to any Australian initiative in the Doha Round that meets the

commitments taken by the Prime Minister. The contribution of transparency is to inform, not to manage, community understanding of what is at issue in opening domestic markets to international competition. And, as the Prime Minister has acknowledged, that understanding is the key to progress in opening world markets.

Finally, and of crucial importance, the studies released by DFAT to date tell us nothing about the opportunity cost of focusing our trade efforts on bilateral deals, at the expense of the acknowledged greater gains from restoring momentum in the WTO. The gains at issue for Australia in opening world agricultural markets alone are estimated at \$4 billion annually. This compares with annual gains that are unlikely to exceed \$50 million from the agreement with the United States, according to an assessment made for a Senate inquiry after negotiations were concluded. The magnitude of the difference tells us where our trade policy efforts should be concentrated. Given the government's absolute commitment to the WTO, and the developments discussed in Section 1, Australians are entitled to know what strategy has been developed to give effect to the Prime Minister's undertaking to help restore progress in the multilateral system.

7. Political commitments to address the issue

A major outcome of the APEC meeting in Chile was a commitment by President Bush and Prime Minister Howard to help developing countries increase their access to world markets. That commitment was re-affirmed by Prime Minister Howard at the World Economic Forum in Davos. It was subsequently set in concrete at the recent UN Summit of World Leaders. President Bush there recognised that 'the lives and futures of millions of the world's poorest citizens hang in the balance and so we must bring the Doha trade talks to a successful conclusion.'⁵³ Prime Minister Howard responded as follows: 'There could... be no better gift to the developing world than lower trade barriers. I warmly welcome President Bush's pledge... that the United States is ready to eliminate all tariffs, subsidies and other barriers... if other nations are willing to do the same'⁵⁴

Such commitments are not self-fulfilling. As the new Director-General of the WTO has correctly observed, the challenge in the Doha Round is to find a way to match those commitments with future outcomes.

Developing countries have in the past advocated domestic transparency procedures as a precondition for restoring progress in the WTO system. Our political leaders therefore have a common cause with those countries in promoting the approach in the Doha Round. Developing countries have advocated it as the way forward, the United States has placed the question of domestic procedures on

the Doha agenda, Australia is widely seen as providing the appropriate model, and both Australian and US leaders have committed to restoring progress in the WTO and improving market opportunities for developing countries.

Unless they have a strategy for dealing with the developments discussed in Section 1 and the overview, the commitments they have taken will not mean much. The signs are not encouraging. In Australia, for instance, a gap is developing between the government's 'absolute' commitment to the multilateral system and its conduct of trade policy. We learn on a near weekly basis of new 'scoping' studies for bilateral agreements, but nothing about how the government intends to pursue the Prime Minister's commitment to help restore progress in the multilateral system.

Promoting an approach that recognises that the influences working against better WTO outcomes originate in the domestic arenas of participating countries poses a major challenge for Australian trade policy. It cannot be left to trade officials. Responsibility for introducing and explaining the need for such an approach in WTO discussions rests squarely with political leadership.

The vigour with which President Bush and Prime Minister Howard pursue the commitments they have taken will send a very important message to the large number of developing countries liberalising unilaterally and to the many countries moving from command to market economies. These together represent the majority of the population of the developing world and constitute the major potential growth areas in world trade. Most importantly, their response will determine whether their own world competitive industries enjoy the increased export opportunities that liberalisation in developing countries has the potential to generate. Because industrial and developing economies complement each other in the things they trade, that potential is crucial to world competitive producers in industrial countries.

In some major developing countries the commitment to liberalise is still fragile. If we fail to respond to the developments described in Section 1, that will discount the value of future multilateral negotiations. It will also strengthen the already strident voices in those countries arguing that the clock should be turned back to protectionism.

All countries participating in the WTO system have much at stake in seeing that this approach is advanced now. As exporters they might be expected to embrace an initiative that underpins international trade negotiations in this way. As importers they are more likely to accept the adjustments involved for existing structures of domestic production if they have worked through the domestic consequences themselves, in the course of deciding what to offer in multilateral negotiations and how to meet their resulting market-opening commitments.

Notes

- 1 Estimate provided by Dr Andrew Stoeckel, Executive Director, Centre for International Economics, 22 September 2004
- 2 Estimated by Dr. Philippa Dee, for the Senate Committee established to review the bilateral trade agreement with the United States.
- 3 Peter Sutherland was Director-General of the WTO from 1993 to 1995. His quoted comment was published in *The Australian* on 18 March 2002.
- 4 UNCTAD, 1992. *Trade Policies, Structural Adjustment and Economic Reform*, Geneva.
- 5 Department of Trade submission to government, following the review of the Industries Assistance Commission by John Uhrig, in 1984.
- 6 Letter to W.B.Carmichael, dated 2 December 1996 (unpublished).
- 7 Alan Oxley, in *The Australian*, 19 October 1998
- 8 Letters to Garnaut and Carmichael, 29 May 2003 (unpublished).
- 9 The Tariff Board, 1972
- 10 Letter to Prime Minister Fraser from the Confederation of Australian Industry, 31 August 1978.
- 11 National Press Club Luncheon, 1 August 1978.
- 12 Industries Assistance Commission Annual Reports 1984, 1985.
- 13 House of Representatives, 21 November 1979.
- 14 Metal Trades Industry Association, 1986. Canberra.
- 15 In *The Australian*, 27 February 2004.
- 16 Reported in *The Australian*, 11 March 2004.
- 17 Alan Oxley, SBS Insight, 26 October 2004.
- 18 There may have been a good reason for his action, but if there were it was absent from the only public explanation that has been offered. See Alan Wood, in *The Australian*, March 9, 2004.
- 19 International Monetary Fund, 1994. Washington
- 20 Reported in *The Australian*, 14 September 2000.
- 21 'Draft Australian proposal for domestic transparency arrangements in the WTO', 20 February, 2004
- 22 UNCTAD VII, Final Act, para.5, sub-para. 4.
- 23 Rattigan, G.A. and W.B. Carmichael, 1996. '*Trade Liberalisation: A Domestic Challenge for Industrial Nations*', National Centre for Developments Studies, Australian National University, Canberra.
- 24 Trade Policy Research Centre, 1989. '*Public Scrutiny of Protection*', Trade Policy Research Centre, London.

- 25 Rattigan, G.A., 1986. *Industry Assistance: The Inside Story*, Melbourne University Press, Melbourne.
- 26 Parliamentary Debates, House of Representatives, 18 October 1973: p. 2356. Parliament of Australia, Canberra.
- 27 The procedures developed by the Commission to give effect to its transparency role were described by Rattigan and Carmichael in *Trade Liberalisation: A domestic Challenge for Industrial Nations*, 1996.
- 28 Organisation for Economic Cooperation and Development (OECD), 1983. 'Transparency for Positive Adjustment', Paris: p. 246.
- 29 Rivlin, Alice M (ed), *Economic Choices, 1984*, Brookings, Washington DC
- 30 Parliamentary Debates, House of Representatives, 18 October, 1973, p. 2356. Canberra.
- 31 Submission to an inquiry on 'Australia's Relationship with the WTO', conducted by the Joint Standing Committee on Treaties, 2001, Inquiry Submissions Vol. 3, p. 10
- 32 The work of the Transparency Commission would focus on the domestic policy choices faced by governments participating in multilateral trade negotiations. An important part of its role is to demystify those choices. It follows that eminence in international trade law is not, in itself, grounds for membership — and may be grounds for disqualification.
- 33 Press Release, United States Trade Representative, October 10, 2000
- 34 International Monetary Fund 1994.
- 35 The Australian, June 29, 1999.
- 36 It is not being suggested that all trade officials would agree with the official inertia in responding to the domestic pressures that have stalled progress in the multilateral system. In by-passing our own transparency procedures, however, our negotiators are compromising the opportunity for Australia to propose an initiative in the Doha Round to deal with those pressures. And they have offered no alternative approach to the challenge these pose for the future of the multilateral system.
- 37 Department of Foreign Affairs and Trade Media Release, 27 April 2005. Canberra.
- 38 NSW Chamber of Manufactures, *Manufacturing Policy*, pp 2–3, 1992. Sydney.
- 39 NSW Farmers, *The Primary Report* 29 November 1995. Sydney.
- 40 Business Council of Australia, *National Trade and Investment Strategy*, p 6, June 1993. Melbourne.
- 41 *'Must The Good Guys Always Lose?'*, an Australian/ Cairns Group Perspective on the Future of Agriculture', 2 May 2002. Amsterdam.
- 42 *'Trade Policy: The Role of Public Enquiries'*, The Stan Kelly Memorial Lecture, 27 September 2005.
- 43 *'Termites in the Basement'*, prepared for the Rural Industries Research and Development Corporation, March 2004. Canberra.
- 44 UNCTAD, Trade Policies, Structural Adjustment and Economic Reform, Geneva, July 1992.

- 45 Letter of 14 September, 1989, to the Industries Assistance Commission (unpublished). (Emphasis added)
- 46 Trade Minister Vaile, in *The Australian*, 22 February 2005
- 47 The importance of the issue for the future of the multilateral system, not the difficulty of working through existing modalities, should determine the priority given it.
- 48 These are the countries primarily responsible for corrupting world agricultural markets and maintaining high levels of protection for their textiles, clothing and footwear industries. EU countries, for instance, have so far shown no interest in reducing agricultural protection through WTO negotiations. If they decide to do so, it will be because their domestic constituents have concluded that the cost of maintaining the protection required to sustain domestic production is too high.
- 49 In *Trade Policy and a Competitive Australian Economy*, National Centre for Development Studies, The Australian National University, 1998. Canberra.
- 50 Industries Assistance Commission, Annual Report 1986–87. Canberra.
- 51 *Sydney Morning Herald*, 21 April 2005 (Emphasis added).
- 52 Quoted in *The Canberra Times*, 20 April, 2005. Following public concern expressed about that response, Trade Minister Vaile announced that these industries would not lose their existing protection arrangements as the result of an agreement with China.
- 53 Reported in *The Australian*, 16 September 2005.
- 54 Address to the United Nations, 16 September 2005.

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