

Trade policy and a competitive Australian economy—a case study

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Progress in WTO-based trade liberalisation depends on developing a mechanism within each member country which makes the economy-wide benefits known to the public.

...at present, as in the recent US case of restrictions on lamb imports, the focus in the importing countries is directed to the impacts on the internationally uncompetitive domestic industries.

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Foreword

The NCDS briefing paper, 'Trade policy and a competitive Australian economy' (Ron Duncan), published in June last year, dealt with the Australian Government's commitment to policies which promote a competitive economy.

The paper contained a proposal to strengthen the World Trade Organization, and argued why Australia should place it on the agenda for the new round. The proposed change would help our world competitive industries realise their potential to increase national wealth and enhance our standard of living. It would do the same for other WTO countries by helping them participate in world trade on the basis of what they do best.

The proposed change is needed to deal with the single most

important influence holding back progress in opening world markets through the WTO—that is, the pressures governments face from protected domestic producers seeking to avoid the consequences, for them, of opening their domestic markets to international competition.

The United States' decision on lamb provides a powerful reminder of the difficulties governments face at home in implementing international commitments to reduce trade barriers. That decision reminds us why a change in the World Trade Organization's approach is needed.

The issue

We cannot rely on WTO agreements to deliver access to markets for our world competitive

industries while participating governments act, as the US Government has recently done, to minimise the adjustment involved for their own uncompetitive industries. Since the WTO compliance rules established to deal with this issue are proving ineffective, the NCDS briefing paper argued that progress depends on building a commitment, within participating countries, to accept the adjustment involved for uncompetitive domestic producers. Governments will always be under pressure to avoid the domestic adjustment resulting from international agreements until those they represent are persuaded that the national benefits which liberalisation makes possible more than outweigh the adjustment costs. This involves raising domestic awareness of the economy-wide gains at issue. That underpinning is needed in order to counter the negative perceptions, fostered by protected producers facing adjustment, that honouring WTO agreements simply hurts domestic producers for the benefit of foreigners. Our briefing paper therefore proposed procedures which ensure that national decision makers, and their domestic constituents, are made aware of the economy-wide gains at risk when governments come under pressure to exempt protected producers from the effects of liberalising.

A well informed public discussion about what the Australian Government can do to improve access to markets for our world-competitive industries is necessary if we are to secure nationally-rewarding outcomes from the new WTO Round. This prerequisite for progress, however, is still missing. That is evident from the ambiguous and conflicting responses coming from both government and industry

organisations following the US decision to restrict imports of lamb products.

A case study

The US decision on lamb exemplifies why the issue dealt with in the earlier briefing paper requires urgent attention in the WTO. That decision resulted from narrowly focused domestic procedures that heighten the influence of non-competitive industries and increase the difficulties that the US Government faces in dealing with their adjustment-averting demands. United States' procedures reverse the roles of public advice and decision-making that enable governments to keep domestic markets open. Those procedures focus on the problems international competition poses for industries under pressure to adjust. The broader effects of such competition, on the economy as a whole, are not brought into account by the United States International Trade Commission (USITC) in formulating advice on whether to provide relief. USITC advice is ignored only if the president deems it not to be in the national interest to provide relief from import competition.

The role of advice in USITC procedures in the United States is basically to provide relief from adjustment pressures. But the United States is not alone in maintaining these kinds of processes. Many countries have followed the United States in the widespread use of anti-dumping and other non-tariff measures allowed by the GATT/WTO agreements; procedures that are widely used as a means of protecting non-competitive industries against imports. These public procedures make transparent to domestic constituents the problems of ailing industries, but the policymaker is left to decide on the

economy-wide considerations without the benefit of public advice on these broader issues.

The effect on President Clinton's decision to restrict lamb imports was described by a prominent US policy analyst in the following terms

He may change his mind when there are two domestic constituencies that are fighting off against each other...But when it comes down to complaints from the Australian or other foreign governments versus American lamb producers, there is no contest (David Brooks, Washington, 10 July 1999).

While it cannot be said with certainty that the outcome in this case would have been different if the USITC's advice had brought the economy-wide considerations into account, the absence of those broader considerations from its advice seriously increased the likelihood of the market-closing decision the president eventually made.

There is a growing recognition, here and overseas, of the need to strengthen governments against those domestic influences now making progress in the WTO so difficult. As was documented in the earlier NCDS paper, this includes both Prime Minister Howard and former Trade Minister Fischer. They have now been joined by the leader of the Opposition, Kim Beasley. In a speech outlining the Opposition's position after a detailed review of its trade policy (Monash APEC Lecture, 18 June 1999) he observed that

it is simply naïve...to suggest that if the Australian people see liberalisation closing factories, destroying jobs they will hold to a rosy view of the opportunities of an open Australia.

Instead of continuing to focus on these negative aspects (for some), as the ALP has done in recent years, he described its revised position on trade liberalisation as 'positive'. Consistent with this change, its revised policy accords a high priority to changing the negative public perceptions about the domestic effects of liberalising that are making progress difficult

...the task before us...is to build the consensus for an open Australia, an Australia engaged with the world to...the benefit of jobs and living standards at home.

The importance of the issue is also being acknowledged in other WTO countries. For instance, United States Deputy Trade Representative Fisher said during the recent APEC meeting in New Zealand 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 (*The Australian*, 29 June 1999).

A similar view was expressed by the Vice-President of the European Union, Leon Brittan, when in Australia last year. He referred to the difficulty of pursuing multilateral trade liberalisation

...in the face of domestic pressures in the contrary direction...I think we have to recognise that support for trade liberalisation is not automatic in Australia or Europe. We need to make the case. And it needs to be made again, again and again (reported by Paul Kelly, *The Australian*, 24 June 1998).

But this recognition that a problem exists, and that it stems from negative public perceptions about the domestic consequences

of liberalising through the WTO, has not produced concrete proposals which address its domestic causes. The official response here to the issue during and since the Uruguay Round, by Australian governments of both political persuasions, has been to postpone discussion of it in the WTO indefinitely. As a result, consideration of the problem it poses for the WTO (and for our world-competitive industries) has been sidelined in Australian trade policy. It is still not possible, for instance, to find any statement by Government or Opposition which acknowledges its central importance in pursuing Australia's declared objectives in the new WTO Round.

Our earlier paper documented how those responsible for Australia's trade policy are committed to the view that international agreements and rules are adequate to deal with the problem. Australia's representative during the Uruguay Round, for instance, still holds to the view that international rules and agreements can, by themselves, bring about domestic reform

Agreements with binding rules...enable governments to see trade liberalisation at home.

In this view, international agreements and compliance rules enable governments to pursue domestic reform in the face of pressure at home to avoid the domestic adjustment involved. It does accept, 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 (Alan Oxley, *The Australian*, 19 October 1998).

This response represents an ongoing liability for the market

opportunities which WTO processes can and should make available to our world-competitive industries and, most visibly, for the future of rural Australia.

The continued viability of many farm industries depends on access to world markets. The issue therefore has direct relevance for the objectives underlying the Regional Australia summit being organised by Deputy Prime Minister John Anderson. While that summit is about delivering 'a better future for regional, rural and remote areas which are facing significant change' (media release by John Anderson A63/99, 10 May 1999), the key themes to be addressed do not include the scope which exists for trade policy to help restore the health of our rural sector by improving access to world agricultural markets.

The Australian Government's continued reluctance to raise this issue in the WTO is difficult to understand. And its conflicting responses to the US action on lamb provide ambiguous signals about the future direction of Australian trade policy. The question at issue is whether we should seek to improve the WTO's ability to open world markets or take retaliatory action against other back-sliding governments by closing our own markets (thereby foregoing the benefits from a more liberal trading environment). The answer, which is crucial for the future health of our rural sector, is important for the market prospects of all Australian export industries.

The way ahead: strengthening the WTO system

Much has been learnt over the past 20 years from intensive attempts at economic reform, especially trade reform, in developing countries and countries in transition from central planning. A point that has been

strongly confirmed from this experience is that governments and their constituents must be committed to reforms in order for them to be implemented effectively and sustained. In order for this to occur, the public must be thoroughly educated about the costs and the benefits of the reforms. Further, greater notice is taken of this kind of information when it is provided from within the country rather from external sources, such as fly-in experts.

Another lesson that has become better understood is that trade reform is one of the most difficult kinds of reform to implement. This is due in part to the fact—long recognised by economists such as George Stigler—that the costs of removing tariffs or other forms of trade restraint (loss of jobs and devaluation of assets) are immediate, obvious, and geographically and politically concentrated, while the gains (cheaper imported inputs and cheaper foreign exchange) are not at all obvious, slow to develop, and spread throughout the economy. Hence, interests lobbying for the retention of trade barriers will always find it easier and cheaper to make their case than those arguing for freeing-up trade. The difficulty of trade reform has also been put in terms of the small size of the (short-term, static) efficiency gains from removing trade barriers and improved resource allocation that results relative to the income transfers involved—transfers from consumers and other users of imports and import-competing goods and services to domestic producers and the government.

Given the knowledge gained from recent reform experience, it is time to re-examine the whole WTO multilateral trade liberalisation

process. That, however, is a matter for a later paper. The here and now concern is the change required urgently to help secure worthwhile outcomes from the new round. This involves the implementation of a mechanism in all WTO countries to ensure public awareness about the costs of protection given to particular industries and the benefits and costs of removing that protection.

Summary

When governments fail to honour WTO agreements to reduce trade barriers, or to maintain reductions agreed in that context, it is because they have not been able to mobilise a domestic commitment to accept the domestic adjustment involved in doing so. If there is no domestic adjustment, there is no trade liberalisation; and therefore there are no gains in domestic efficiency and there is no increase in access to world markets. Every country participating in the WTO system therefore has an incentive to take seriously any proposal which helps them resist the adjustment-averting pressures they face at home, because worthwhile gains through the WTO system now depend on it. The strength of the approach proposed here and in our earlier briefing paper is that it addresses the underlying problem at its source, while leaving individual governments in full control of domestic policy.

Given the track-record of Australian governments to date, it is unlikely that anything will be done to deal with this problem for our world-competitive industries unless those industries themselves insist that a concrete proposal which addresses its domestic causes is put forward by Australia in the new Round. An essential element of such a proposal would

involve each participating country agreeing to examine publicly all petitions from their own protected industries for exemption from WTO agreements—with the merits of such claims to be assessed against the economy-wide domestic gains at issue. This is the antithesis of the procedures which led to the US restrictions on lamb imports and would help counter the negative influence protected producers now have on the conduct of trade policy.

Abbreviations

ALP	Australian Labor Party
APEC	Asia Pacific Economic Cooperation
GATT	General Agreement on Tariffs and Trade
NCDS	National Centre for Development Studies
US	United States of America
USITC	United States International Trade Commission
WTO	World Trade Organization