

## 8. Implications for Australia's global trade interests

A leading imperative for Australia's global trade policy is to maintain the effectiveness and authority of the WTO multilateral trading system because of its contribution to global economic welfare. Australia's overriding global goal in trade policy is to eliminate global protection of agriculture. This can only be achieved with global solutions through the WTO. Some contend Australia diminishes those global interests by pursuing free trade agreements. There is no reason why Australia cannot support its overriding global goals and simultaneously pursue bilateral liberalisation. The global record now suggests that regional and bilateral liberalisation supports, not diminishes, global liberalisation. An Australia-US FTA can serve as a leading edge example of such support.

### Australia's trade interests are global

Much is made of the fact that over half of Australia's exports, now go to East Asia.<sup>1</sup> However this must not disguise the fact that Australia is fundamentally a global trader. Australia's capacity to trade with all regions of the world and across all sectors of the economy creates a resilience which helps manage downturns in demand in markets in major regions. It is a key reason Australia weathered the fall in demand in East Asia since 1997 following the Asian currency crisis. Trade expanded in areas outside East Asia.

In 1999-2000, 53 per cent of Australia's exports went to East Asia. Export growth to East Asia outstripped growth to all other areas until 1995. For example, between 1990 and 1995, exports to East Asia grew at twice the rate of exports to the rest of the world. Growth of trade to East Asia is not new but consolidates a standing trend. In 1979-1980, 44 per cent of Australia's exports already went to East Asia. The pattern of export to East Asia vis a vis the rest of the world reversed after 1995. Between that year and 2000, export growth to the rest of the world grew at twice the rate of export growth to East Asia.

Many economists predict that export growth to Asia will recover. This must depend upon on recovery of economic growth in Asia and there are reasons to be cautious about that in the short to medium term. The leading economy, Japan, is teetering on

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1 Defined here as ASEAN, South Korea, Japan, China, Hong Kong, and Chinese Taipei.

the brink of recession. Recovery of growth in Japan will depend upon fundamental reforms which are not likely to be undertaken quickly. The economies hit by the Asian currency crisis have still not completed the necessary reforms their financial systems and corporate governance require to restore stable bases to their economies. They are susceptible to even small external shocks. Recession in the United States would have an adverse effect on the prospects for these economies.

Whether or not there is recovery sooner or later in Asia, the fact that Australia is a global trader must be the fundamental point for defining Australia's interest in international trade. Other than large economies, the normal export pattern for most countries is for a handful of products to dominate exports and for exports to be concentrated in a few markets, usually adjoining economies. Eighty per cent of Canada's trade is with the United States. Germany is the largest trading partner by far for Sweden and Switzerland. Australia was closer to that model in 1950 when 36 per cent of all exports went to Britain and one product – wool – accounted for 52 per cent of exports.

The situation today is a notable exception to that pattern. The largest single export market for Australia is Japan, which takes around 20 per cent of Australia's exports. The largest single export product is coal, accounting for around 12 per cent of all exports. The United States, Europe and New Zealand have traditionally accounted for around 10 per cent of Australia's exports. The rest is spread among other countries. Australia's remoteness from major markets and its wide resource endowment means that its exports today are almost evenly split between agriculture, minerals, manufacturing and services.

The wide spread of Australia's export markets and the diversity of the export mix is unusual for an economy of Australia's size. It also means that Australian producers and manufacturers have a capacity to move into new markets as they emerge. Australia's recent, dramatic increase in exports to the Middle East is a case in point. Over the last five years, exports to the Middle East have increased more than fivefold to \$1.5 billion in 2000. The bulk of these exports were automobiles.

Australia's import pattern is starting to show a similar spread. In 1995, 62 per cent of Australia's imports came from the world's three biggest economies – Japan, the US and the EU. The largest single source, at around 25 per cent, is the United States. This is normal. Most countries import most products from these three economies. They are the major producers of capital and consumer goods, which is what most countries import. The share of imports of the three had dropped by 2000 to 55 per cent, an effect of currency devaluation in the East Asian region.

Australia's fundamental trade interest is to see a global economy where Australian producers of goods and services have the maximum opportunity to undertake commerce where they can and to ensure that global arrangements facilitate such a result and promote competitiveness in the Australian economy.

## Australia's global trade interests – the centrality of the WTO

Australia has three overriding trade policy interests. The first is to see a global system operating that fosters through commercial exchange the optimal utilization of resources in Australia to improve the standard of living of the Australian people. The second is to ensure that that system offers the same opportunities to other countries for the humanitarian benefit it can deliver and for the promotion of stability in international relations that it can bring. The third interest is to secure removal of trade barriers to Australian exports.

### *The welfare benefits of the WTO*

All three goals can be delivered through the multilateral trading system based on the rules of the World Trade Organization. Only the global benefits of the first two goals can be delivered through a bilateral system. Countries can secure agreement to reduce barriers in bilateral or even regional agreements. The premise underpinning the system is that if the exchange of goods and services between all economies is based on the comparative advantage of each economy, all economies will receive the optimum economic benefit. A global trading system based on this premise would result in increases in the standards of living of all economies which chose to actively participate in it. This will contribute to global prosperity and promote international security.

By and large the WTO trading system has gone a long way to create such a system and to secure such results. The record growth and increase in standard of living of people in the world since the GATT was negotiated to a large extent is a result of the creation of the global multilateral trading system. The average tariff on global trade is now down to around 6 per cent. The preservation of this system is in the interest of economies, but it is especially important for smaller nations and those which are not members of significant trade blocs. While it would not be in the interest of any member of the European Union to see the multilateral trading system fail, they at least have some sense of security because of access to the markets of other members of the European Union guaranteed by EU agreements. Most nations do not have the luxury of such a fallback. For Australia, and most other countries, preservation of the authority and effectiveness of the multilateral trading system is absolutely vital.

While the WTO system has been effective in enhancing global economic welfare, there are areas where trade barriers remain high and exchange of products is restricted. Most notable is the agricultural sector and global trade in clothing and textiles. Trade barriers are also significant in many services industries. Trade barriers also tend to be higher in developing countries than developed countries.

The WTO therefore must still be regarded as 'work in progress' if it is to fully serve its purpose of providing all nations the opportunity to secure the optimum economic

benefit for their people. Garments, textiles and agricultural products are areas of specialization in trade for many developing countries. It is a measure of the lack of generosity of the industrialized world that it has given such a low priority to the task of opening world markets in the areas of greatest interest to so many developing countries.

There is a need for another round of multilateral trade negotiations in the WTO. There are outstanding commitments from the Uruguay Round to embark on another set of negotiations to reduce trade barriers in agriculture and in services. These negotiations have technically started. However, they will not gain full momentum until they become part of a global negotiation on a wider package of issues. Efforts to secure such an agreement have not been successful. The WTO Ministers failed at the conference in Seattle to reach agreement on such a package. There will be a fresh effort to secure an agreement at Doha, Qatar in November 2001.

### *The problem of world trade in agriculture*

Removal of protection of global trade in agriculture has been Australia's leading trade priority ever since the GATT was established. Markets for agricultural products in Europe, Japan and to a lesser extent, the United States, the world's biggest markets for food, are also heavily restricted. The European Union is the single largest market for food but Australia exports very little to it. The OECD estimates that world subsidies of agriculture amount to \$US400 billion annually. These subsidies push down world prices, which means that Australia (a very competitive producer and exporter of grain, red meat, dairy products, sugar and many horticultural products) earns much less from exporting agricultural products than it should.

An important start to open world agriculture markets was made in the Uruguay Round of trade negotiations which ran between 1986 and 1994. An initial program to reduce support for agriculture was started, but it was a six-year program and it expired in 2000. While non-tariff measures have been significantly reduced under that program, tariffs remain high and payment of subsidies to farmers remain very high. The issue of reducing these barriers is so politically sensitive that it is difficult to conceive of the EU, Japan or the US agreeing to agree to deep cuts in subsidies and protection of agriculture other than through a global negotiation in the WTO.

The only realistic way of reducing intervention by the governments of the world's largest economies in the production and trade of agriculture is to secure agreement in the WTO to progressively reduce subsidies paid to agriculture and barriers to trade in agriculture. Australia's leading global trade interest therefore must remain further global liberalisation in the WTO, with particular emphasis on agricultural trade.

Pursuing this goal outside the multilateral trade system is not an option for Australia or anyone else. Australia may secure increased access to US agricultural markets

through an FTA, but this is not a solution to the global problem of protection of world agricultural markets.

### *Trading rights created by the WTO*

It is also of vital importance to Australia that the rules of the WTO remain effective. The WTO is a valuable instrument for Australia to seek removal of other trade barriers to Australian exports. A number of areas of high export interest to Australia are restricted by high trade barriers. A number of countries, many in Asia, have very high barriers against automotive imports, which are now one of Australia's major manufacturing exports. Services markets are also heavily restricted in Asia. Restrictions on imports of clothing and textiles in Europe and North America from developing countries restrain the global market for wool, another major Australian export. Every time there is a multilateral negotiation to reduce trade barriers, there is an opportunity for Australia to press trading partners to reduce barriers.

The WTO rules also restrain members from trying to create unfair advantages for their enterprises in world trade. It constrains abuse of subsidies and dumping, and misuse of technical barriers as disguised restrictions on trade. It obliges parties to limit the extent to which they might discriminate against others when they form customs unions or free trade areas.

Finally, the WTO has a very effective system of compulsory arbitration which enables any member to challenge the compliance of any other member country's policies with its WTO obligations. The WTO system provides Australia (and every other member) with extremely valuable rights in international law. Anything which undermines those rights undermines vital national interests.

### Removing trade barriers

The third basic interest in Australian trade policy is to seek removal of barriers erected by others to Australian exports. The way in which the WTO supports that has been discussed. Countries can also seek removal of barriers through bilateral or regional trade agreements. This is one key reason for forming a Free Trade Area with the United States – to seek removal of US barriers to Australian imports.

### Squaring off multilateralism and bilateralism

Does a proposal by Australia to reach a free trade agreement with the US diminish the importance of its evident interest in securing further global liberalisation in the WTO? There are two arguments. One is that negotiating bilateral agreements represents an alteration of priorities that does not reflect national interests insofar as an agreement with the US cannot bring about a global reduction of barriers. A second is that

negotiation of an FTA now would divert valuable resources (time and resolve) from the critical business of launching a new WTO round.

The question of priorities is one for government to decide. Progress in the WTO remains a fundamental priority but this does not prevent governments from pursuing other priorities. Successive Australian Governments have stated that they will pursue multilateral, regional and bilateral trade issues simultaneously and they have. In the late 1980s, while the Australian Government was intensively involved in the first part of the Uruguay Round, it launched the APEC initiative and accelerated the creation of a free trade area between Australia and New Zealand.

Australia was not alone in working to secure results through the Uruguay Round multilateral trading system while at the same time pursuing regional or bilateral liberalisation. While the EU (then EC) was negotiating in the Uruguay Round it was completing the Single Market Program which resulted in the Maastricht Treaty. The United States at the same time negotiated first a bilateral agreement with Canada and then completed NAFTA with Canada and Mexico. As the Uruguay Round drew to a close, the ASEAN countries negotiated the ASEAN Free Trade Area. Many trading nations have demonstrated that it is possible to maintain multilateral trade liberalisation as a high priority while undertaking liberalisation on a regional or bilateral basis in parallel. As noted in Chapter 3, experience suggests that negotiation of regional and bilateral agreements has been a spur to multilateral liberalisation and not a drag.

The issue then swings to the second argument. Can both multilateral and other liberalisation activity be resourced satisfactorily at the same time? The test of whether or not a priority is diminished is the extent to which resources are reduced for that priority. There is no intrinsic reason why Australia cannot follow trade initiatives to establish an FTA with the US in parallel with efforts to launch a successful WTO Round.

The pattern would seem to be not that regional or bilateral activity cannibalizes interest, resources or commitments to multilateral liberalisation, but that the taste for one stimulates the taste for the other.

Another reality bears in on this issue. Since 1988, the United States has decided that it will negotiate free trade agreements with other countries. It has not indicated that this represents a diminution of its preparedness to pursue global liberalisation through the WTO. Even if Australian authorities were to decide that the WTO should warrant higher priority in Australian trade policy interests, would it be in Australian interests to disregard US propensity to enter bilateral agreements, especially when it was doing it with countries who were less significant trading partners of the US than Australia?

## How an Australia – US FTA can provide cutting edge leadership in trade liberalisation

Largely as a result of the experience with trade liberalisation over the last two decades, thinking about the relationship between bilateral and multilateral trade liberalisation has changed. As noted in Chapter 3, a 1995 study by the OECD concluded that a general effect of bilateral and regional trade liberalisation was to support and encourage multilateral liberalisation.

There are several examples where innovation in trade liberalisation has occurred in smaller fora and then been expanded upon and given global standing in the WTO. Australia played an active role in such a development. As noted earlier, Australia and New Zealand showed how liberalisation of trade in services could be achieved before negotiators in the WTO had worked out how to deal with this multilaterally.

Negotiation of an FTA between Australia and the United States creates a number of opportunities to develop approaches that could improve the effectiveness of the multilateral trading system in opening world markets.

Multilateral trade negotiations are typically drawn-out affairs. It is most likely that an FTA between Australia and the United States would be completed well before the next round of negotiations in the WTO is completed. There is a strong prospect of using an FTA to adopt approaches on problems in international trade that could then be developed further in the WTO. Both Australia and the United States could set that as a secondary policy objective of negotiating an FTA.

Reforming trade in agriculture is a clear case in point. The design of processes of liberalisation can have a critical effect on the success of the process.<sup>2</sup> The Agriculture Agreement negotiated in the Uruguay Round principally secured removal of non-tariff controls and established rules on how to reduce protection. This was a very important step. But if the negotiations in the next round are to be successful, substantial reductions must be achieved. Clear guidelines are needed on how that is to be achieved. Australia and the United States have a common goal to secure global reduction of support for agriculture. Approaches to reducing such support that could be applicable

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2 Any reader who reviews the modalities for reducing support for agriculture in the WTO Agreement on Agriculture will be instantly stuck at how technical and complex the rules are. And as the reader comprehends the impact of the rules, it will become increasingly clear how technical definitions and exemptions can easily frustrate the original intent to reduce protection. In the WTO Agreement, very broad exemptions were permitted. The level at which non-tariff measures were converted to tariffs resulted in no reduction of protection when the conversion took place. Members were permitted to lump large numbers of products together for the purpose of measuring how commitments to reduce financial support paid to agriculture was to be measured. This enabled members to avoid reductions on some products.



in the WTO negotiations could be developed in the bilateral agreement.<sup>3</sup> Such precedents could also serve as valuable guidelines for negotiations over agriculture in the FTAA.

One of the thornier issues to emerge in international trade now is how to enhance public confidence in food safety and manage trade in new products such as genetically modified organisms, while at the same time opening markets to trade. Many environmental groups argue that controls on trade are essential to maintain public confidence in food. This is not necessarily the case, but these sorts of arguments will be exploited by European farm groups to keep out imports of safe and high-quality foodstuffs that cost less than European domestic products. Australia and the US could develop standards and conventions in bilateral trade to address public concerns about food safety that would have utility in the WTO and related fora.

Other areas in which an FTA could have utility in promoting wider global liberalisation are use of technical standards, use of sound science to guide regulations on trade, definitions on rules of origin, investment rights and temporary residence rights for services professionals. These are just a few examples.

The degree to which there is commonality of thinking in Australia and the United States today on public policy management in economic policy, as observed in Chapter 6, is quite striking. The United States will not have before negotiated an FTA with a more open economy. An FTA presents an excellent opportunity for Australia and the United States both to advance their mutual economic interests and to encourage liberalisation elsewhere in other bilateral and regional fora as well as the WTO itself.

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3 This may seem overly ambitious, but if both governments set themselves such a goal, agreements could be established would have wider utility. They may set out long goals for reductions of barriers, and lay down rules that could be applicable in WTO fora. Examples of issues to consider could include: how to progressively replace quotas with tariffs over time; how to relate reductions in barriers to market access with constraints on payment of subsidies to ensure subsidies do not substitute for the protective effect of the higher tariff; how to define exemptions to ensure they do not undermine the overall goal of liberalisation; and how to set up sub-negotiations so that full liberalisation in specific areas of trade in food and agriculture can be achieved without tying the pace of liberalisation to movement in the most intractable areas.