

FOREWORD

"No policy area is more domestic than international trade policy". George P Schultz, who made this remark in a book he co-authored with Kenneth Dam in the 1970s, was well placed to know, later becoming Secretary of State in the Reagan Administration. The early exclusion of agricultural trade and then textiles from the GATT (now WTO) and the emergence of 'voluntary' export restraints for auto trade, were early manifestations of this reality at work. And yet the United States and most other countries have generally acted as if trade policy were indeed international, its outcomes dependent on the negotiating skills of trade diplomats in Geneva, or New York or London.

Fortunately, Australia took a different path to trade liberalisation, one that was essentially unilateral. This was partly pragmatism, given that our traditional export interest was off limits at that time to negotiation, but it mainly came through recognition that Australians would benefit from reducing protection, regardless of the actions of other countries. Thus the 25 per cent tariff cut of the Whitlam Era, and the deeper and more sustained reductions of the Hawke/Keating Era, and indeed most of the subsequent reforms in the services sector, were not contingent on obtaining reciprocal 'concessions' from our trading partners. Australia's more recent pursuit of preferential trading agreements has not really changed the essential story. Relatively little liberalisation has occurred through these compared to the domestically initiated reforms. The extent to which enhanced foreign market access has occurred is another matter, with some deals scoring better than others.

Import barriers provide a shelter for inefficiency extending well beyond those industries directly competing with imports. Australia's liberalisation efforts of the 1980s ultimately drove a change in 'mindset' throughout the business community from seeking assistance from government, to seeking ways of becoming more productive and competitive. Some of the biggest obstacles were policy related. Reforms to our inefficient government infrastructure monopolies and hidebound industrial relations systems were important early achievements. The benefits that flowed from these pro-competition reforms saw them extended through the National Competition Policy. Finally, reform efforts were ramped up in areas of 'social infrastructure' with the aim of enhancing human capital and reducing social disadvantage. All this began with tariff reform and arguably would not have occurred without it.

The interdependencies between international trade policy, domestic policy and national politics, and the benefits of having these pulling together, make it vital that we do not rest on our laurels or, worse, slip back to old ways. This book contains welcome recognition of this, drawing on the insights and experience of three 'insiders' from the trade bureaucracy with many years experience. In a way, it provides a reconciliation between the world of trade diplomacy and the domestic policy world that ultimately determines what diplomatic efforts can achieve.

It also represents a welcome departure from the 'negotiating coin' mindset that has traditionally (and perhaps understandably) been exhibited by trade negotiators. In other countries, this has seen domestically beneficial liberalisation held back in the hope of using it to leverage 'concessions' from others. Most countries have stored up so much of this negotiating coin over time that if this were indeed the key to achieving good outcomes the Doha Round would have been a raging success!

Policies that impact on trade are typically put in place in response to domestic political pressures and needs. (This is essentially where the 'negotiating coin' comes from.) And it is these pressures

that have to be countered if we are to achieve lasting reform, whether in international or domestic settings. As Australia's own experience has shown, this is a never-ending task, because the pressures never go away. As long as there is hope that government will provide support, it will be sought. International commitments merely determine the field of play.

Considerable creativity has accordingly gone into finding ways of 'supporting' local industries that do not run foul of obligations under the WTO or other agreements. So these days the name of the game in industry/trade policy is rectifying 'market failure', with new forms of government support to domestic firms and industries being offered to promote 'adjustment', enhance innovation, lessen environmental externalities, etc. The automotive industry is a classic instance of how a politically influential player has been able to sustain government support through such avenues, notwithstanding the decline of its principal traditional protective instrument, the Tariff.

That the Tariff, though much diminished, remains in place, is an issue in its own right. Not so much because of its direct costs any more, though these are larger than is generally believed, but because it is a symbol of the legitimacy of protection and thus of efforts to secure more of it. Its complete removal, as proposed by the authors, is highly desirable and would provide an important signal. Instead, there have been signs of movement in the other direction, with the recent strengthening of anti-dumping provisions and weakening of long-standing tariff exemption provisions for certain imported inputs.

That Australia continues to struggle to contain protectionist tendencies, despite our past reform successes, is indicative of the challenges internationally. It is generally recognised that without the dogged work over many years of the IAC (and its successors through to the Productivity Commission), our own achievements are likely to have been considerably less. Thus the authors rightly emphasise the importance to liberalisation efforts of continuing to explain the benefits to the community, which otherwise may only hear about the costs. This is ultimately a political responsibility, calling for good leadership, but it has been assisted in Australia by the consultative and evidence-based advice of the Commission.

There is no institutional counterpart in other countries to the processes that have enabled the Commission to support Australia's liberalization efforts. (The exception is our closest OECD neighbour, New Zealand, which established its own Productivity Commission just two years ago.) At one stage in the Uruguay Round, momentum seemed to be building for an agreement on 'transparency' principles for trade-related policy making nationally. But this got diverted into an international informational vehicle within the WTO (the Trade Policy Review Mechanism) that has proven useful, but still remote from the policy drivers in national capitals.

If George Shultz was right about the origins of trade policy, which the evidence strongly confirms, then it seems inescapable that advancing liberalization internationally, and indeed holding the line on past gains, will require that more attention be paid to domestic policy-making settings. It is no longer reasonable to expect that external negotiations among countries based solely on reciprocity can do the trick, even among subsets of the so-called 'like minded'. Would sovereign countries collectively agree to impose greater disciplines on their own decision-making processes? Depending on how these are framed, I think they might, given that an enhanced capacity to understand the domestic consequences of trade policy choices would have to be in each country's own best

interests. I also think that, notwithstanding more recent slips from the 'high ground', Australia remains well placed to advocate this internationally.

Whatever other countries decide to do individually and collectively, Australia's economic fortunes will continue to be shaped predominantly by our own policy actions. Gaining new footholds on the slippery path of reform remains the biggest challenge we face.

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