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Canberra
(to be tabled)



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19 April 2004

AUSFTA
Submission 160

Mr Andrew Southcott MP
Chairman
Joint Standing Committee on Treaties
Parliament House
Canberra ACT 2600

Dear Mr Southcott,

We write as two Australians who have had substantial involvement in Australia's trade liberalisation and in international discussion of trade policy. An important lesson of our experience is that the domestic process through which trade liberalisation is discussed and trade policy decisions are taken is critical to progress in liberalising world trade. Disinterested analysis and wide dissemination of information about the costs of protection was a critical element in persuading Australians that reducing our barriers was in our own interest.

We believe that the domestic processes involved in convincing us to reduce our own trade barriers hold the key to mutually beneficial trade negotiations with the US and with our other trading partners, and that there is scope to introduce them into the WTO system. Our submission describes the problems that flawed domestic decision-making has introduced into the international trading system in recent years. These are manifest in the process used so far in negotiating the Australian United States Free Trade Agreement. It is within the responsibility and power of your Committee to put the Australian trade policy-making process back onto a productive path, and in the process to lay a basis for restoring progress in trade liberalisation abroad.

The Joint Standing Committee on Treaties was established to ensure that the Executive Government's treaty powers would not be used to by-pass public consideration of policy issues of major community concern. The AUSFTA is arguably the most far-reaching use of the Commonwealth's treaty powers since the establishment of the Committee.

That agreement breaks new ground not only in conventional areas of Australian trade and protection policy, but also in a wide range of sensitive policy areas that have hitherto not been affected by trade policy decisions in Australia. The reach of this FTA extends to health policy (the pharmaceutical scheme); patents and intellectual property; foreign investment review; and broadcasting and media, among many policy areas beyond trade and protection. Some of these new departures in Australian trade agreements are covered by the nine pieces of

legislation that we understand must be passed by the Australian parliament before the AUSFTA as negotiated can come into effect. Others, of great sensitivity and importance, do not require legislation. On broadcasting, for example, although the execution of the AUSFTA would not require new legislation it would constrain the Australian parliament's use of its legislative powers.

For these reasons, we believe it is important that your Committee establish a proper process for the Parliament's consideration of the AUSFTA. It has been suggested that the processes through which the FTA can now be considered are constrained by timing imperatives-- that passage of enabling legislation through the Australian Parliament and approval of the Agreement as a whole by the United States Congress must be completed by October 31, to allow the Treaty to come into effect on 1 January 2005. To meet this timetable, the enabling legislation would need to be in place by October-- or much earlier if an election were to be called for August, September or October.

These timing constraints are entirely political and are not embodied in the AUSFTA as negotiated. Chapter 23 provides for the agreement to come into force 60 days after each Government has advised the other that legislative approvals have been completed. If for instance an August, September or October election in Australia made it impossible for enabling legislation to be passed by the Australian parliament before 31 October, and if the new Australian Parliament were not to meet until the New Year, the enabling legislation would be passed in 2005. We have been advised by officials of the United States Government that the Agreement would then come into effect 60 days after the Australian government advised the United States government that Australian legislative approvals had been completed. Similarly, if proper process required delay in consideration of the enabling legislation until late 2004 or into 2005, the Agreement would still come into effect 60 days after completion of legislative processes in the two countries.

We note that, for reasons entirely beyond the control of the Australian government or Parliament, the United States legislative processes may not be completed in time for the Agreement to come into effect on 1 January 2005. We understand that, as at the date of this submission, the United States government has not decided whether it will ask the Congress to take a decision on the AUSFTA in 2004.

There is therefore time for the Parliament, on the advice of the Joint Standing Committee on Treaties, to ensure proper process in considering the FTA.

In our view, proper process in this country begins with transparent analysis and reporting on the benefits and costs of the FTA by the Productivity Commission. This is the body in Australia that has the human resources, the technical capacity, the experience and the reputation for independence that can give the Australian community and Parliament confidence that there is a sound basis of fact and analysis for rational debate of the wide range of complex issues raised by the FTA.

We believe that the costs of hasty decisions by the Australian Parliament, based on assessments that are not widely recognised as being independent and authoritative across the wide range of issues that arise in the FTA, would be damaging to public confidence in the Australian policy processes, to public support for changes of policy in areas of high political sensitivity and to Australia-United States relations.

For reasons of proper process in Australia, and to retain the credibility of the model our government is urging other countries to adopt, we urge the JSCOT to ensure that a public inquiry and report is conducted by the Productivity Commission prior to completion of the Parliament's consideration of enabling legislation for the AUSFTA.

Yours sincerely,



Ross Garnaut
Professor of Economics
The Australian National University



Bill Carmichael
Former Chairman, Industries
Assistance Commission

Australia's approach to international trade negotiations.

A Case Study : The USFTA

**Submission to the Joint Standing Committee on Treaties
April, 2004**

Ross Garnaut

Bill Carmichael

This submission draws attention to a crucially important unresolved issue in Australian and international trade policy. A good outcome from negotiations on the free trade agreement with the United States, as well as progress in the Doha Round, and of the WTO, depends on how the issue is resolved.

The currently dominant approach, embodied in the United States FTA negotiations, sees international trade negotiations as involving external issues and processes, with outcomes from negotiations being enforced from the outside--by international compliance rules written into the trade agreements. This approach relies entirely on external processes and reasons for reducing trade barriers. Its pre-occupation with negotiating an exchange of market concessions has diverted attention from the domestic source of the gains for countries liberalising through international negotiations.

The competing approach recognises that trade barriers are the international manifestation of domestic policy decisions taken by national governments to protect domestic industries. This recognition of their origin in domestic policy is the key to restoring progress in trade liberalisation-- whether this is pursued unilaterally, bilaterally through FTAs, or multilaterally through the WTO. Contrary to the impression created by the present bargaining approach, all the gains available to countries liberalising through international negotiations depend on the decisions each takes at home-- about their own barriers.(1) This approach also recognises what our experience in negotiating the US agreement has demonstrated--that governments will always face strong pressure at home against reducing barriers protecting local producers unless there is wide domestic awareness of the national economic benefits at issue. The approach therefore includes a domestic transparency process to underpin international negotiations by raising awareness, within participating countries, of the positive (economy-wide) domestic gains from liberalising domestic markets. The integrity of this process depends on its impartiality between the many domestic groups with an interest in the outcome of negotiations. It therefore takes place at arm's length from the mystique and spin often associated with trade negotiations. Its role is to inform, not to manage or control, public understanding and discussion of what is at issue for national economic welfare.

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

“The dynamic supporting trade liberalisation in democracies will only succeed if communities in each country believe that it is in their interests to liberalise.....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.”...(2)

He also 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 inform and stimulate that discussion... (3)

In view of the Prime Minister’s support for the approach, we recently prepared a draft transparency proposal to provide a basis for an Australian initiative in the Doha Round. That proposal (attached) sets out the case for adding domestic transparency arrangements to existing WTO processes, giving greater substance to international negotiations....(4)

Australia’s conduct in negotiating the agreement with the US has taken a quite different path. 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 approach endorsed by the Prime Minister, a private 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 \$4 billion. These were, in fact, **potential** gains. They could eventuate only if the negotiations provided comprehensive access to US markets-- most importantly in the highly protected sugar, dairy and beef markets. They depended on such large liberalisation of services that productivity rose by an average of 1.5 per cent across **all** services industries in Australia. It would have involved

eliminating all our remaining protection against United States competition. Given the influence of the American farm lobby over US trade policy, and US procedures in place for providing relief from import competition (together with practical constraints that mean the AUSFTA will provide little new liberalisation in services), our gains from the agreement were heavily overstated by the assessment on which the government relied. Yet those estimates were still being quoted to provide support for the agreement after it was finalised, as though they reflected the **actual** outcome for Australia. It is therefore of concern that the Department of Foreign Affairs and Trade has now commissioned the same firm to assess the gains from the agreement as negotiated. There is some irony in the fact that, had the AUSFTA already come into effect, it would have prevented the allocation of the contract to the firm preferred by DFAT without competitive tender.

At issue here is not just that the assessment made available to Australians at the beginning of negotiations was subsequently used to foster unrealistic public expectations about the outcome for Australia. A more important issue is whether we have learned from that experience, about how we should conduct trade policy and international trade negotiations in future. The choice is between an approach based on an "informed public discussion of the economy-wide effects of major trade initiatives", the approach endorsed by the Prime Minister, or the approach used so far to foster public support for the US agreement.

The US Trade Representative recently proposed that WTO members meet to explore ways of increasing transparency of trade policy 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.".... (5).

That provides scope for an Australian initiative, reflecting our own experience, in the Doha Round. In introducing such an initiative, however, we may need to explain why--when consulting our own constituents about the effects of the US agreement--we ignored the institutional model we will be urging other countries to adopt.

This conflict in Australia's trade policy-- between our approach to the bilateral agreement with the US and the approach needed to restore progress in liberalising through international negotiations --has to be resolved now, while there is still scope for an Australian initiative in the

Doha Round. In view of the importance both government and opposition place on securing the rewards available from participating in trade negotiations, we suggest it be resolved by considering the following three questions. Which approach is more likely to engender trust and confidence in international trade negotiations and to deliver nationally rewarding outcomes? Which leaves governments in full control of domestic policy, and more accountable domestically for the outcome of trade negotiations? And which is more likely to help clear the road-block to international markets facing our own world competitive industries, including agriculture?

ENDNOTES

- (1) This message is counter-intuitive. The existing approach makes it easier to see exports as the gains from trade negotiations and imports as the costs. There is therefore a need to introduce into national preparations for international negotiations a domestic educative process to ensure this popular misconception becomes self-correcting. That made it possible for us to reduce Australia's barriers unilaterally. Our experience is now highly relevant to the problems faced by all governments participating in the WTO system.

- (2) Prime Minister's letter to Garnaut and Carmichael, dated 29 May 2003 and copied as Attachment 1.

- (3) Ibid

- (4) The proposed domestic transparency initiative is copied as Attachment 2.

- (5) USTR Press Release, October 10, 2000. There had been support for such an initiative from the wide range of international organisations listed in page 7 of Attachment 2. In addition Dr Clayton Yeutter, US Trade Representative in the Uruguay Round, has undertaken to provide support for the approach advocated in the draft proposal. It also received strong support when presented by Garnaut to a meeting of British and European trade policy analysts and practitioners of the Royal Institute of International Affairs at Chatham House in December 2003.

ATTACHMENTS

- 1/ Prime Minister's letter to Garnaut and Carmichael of 29 May, 2003

- 2/ Draft Australian proposal for domestic transparency arrangements in the WTO, 20 February, 2004.



PRIME MINISTER
CANBERRA

29 MAY 2003

Professor Ross Gamaut
Professor of Economics
The Australian National University
CANBERRA ACT 0200

Dear Professor Garnaut

Thank you for your letter of 10 March 2003, co-signed by Mr Bill Carmichael, regarding Australia's trade policy approach. I apologise for the delay in replying.

I share many of your perspectives, including that:

- countries liberalising trade barriers gain from unilateral action, as Australia has done;
- unilateral action is less frequent in other countries than it should be because the costs of misguided trade barriers are less well understood by foreign citizens; and
- more transparency as to the costs of protection in other countries would help to redress the imbalance between the diffuse interests of consumers who each individually lose a little from protection, but collectively lose more than the concentrated and individually large gains of the few who are protected.

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 (including in important periods under Mr Carmichael's chairmanship) has been fundamental to building and maintaining Australian public understanding of the benefits of greater openness to international competition.

This has been an important factor underpinning the Australian public's acceptance of reductions in protection over recent decades which, in turn, led to the upsurge in Australian trade-to-GDP ratios that came with our greater economic engagement with world markets and our participation in East Asian growth.

More broadly, this approach to the "supply" side of the economy has been an important factor in the above trend growth in productivity and in Australia's strong overall economic performance.

The government will of course continue to look to the Productivity Commission as an important source of independent advice. We also recognise the role it can play in stimulating informed public discussion of the economy-wide effects of major trade initiatives.

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.

The government sees broader virtues in improved international transparency than in the important area of trade barriers that your letter addresses. In the government's strategic and analytical response to the Asian crisis (the 1998 Report of the Task Force on International Financial Reform), in our work in APEC, the OECD, the international financial institutions and the Financial Stability Forum, we have sought consistently to build international transparency and so to spread the application of best practice - often Australian practices - to other countries.

Your letter touches at several points on the parallel paths of bilateral, WTO-consistent trade liberalisation and multilateral liberalisation through the Doha Round.

Australia has an ambitious free trade agenda - both multilateral and bilateral negotiations offer the prospect of real gains for Australia. The Doha round has the potential to deliver the greatest benefits but it will be held back until the European Union commits to real reforms in agriculture. Slow progress in the

round is not the result of the proliferation of free trade agreements (FTAs). Strong advocates of free trade are working for an ambitious outcome for the round as well as seeking to harvest the benefits of free trade in a shorter timeframe through FTAs. Bilateral agreements can support multilateral negotiations by setting a high benchmark for liberalisation and stimulating multilateral negotiations. This is why we are pursuing the most comprehensive and ambitious outcomes from FTAs.

In addition to market access improvements, FTAs offer an unparalleled opportunity for closer economic integration with our key trading partners. This will be critical to help Australians do business internationally, given the growing role of services and investment in our economy and in world economic growth.

A FTA with the United States is a great opportunity to further integrate Australia with the biggest, most advanced economy in the world - stimulating investment, improving business links and driving innovation. Our negotiation with the United States however is not at the expense of enhanced economic and trade relations with the region. The government has already concluded a FTA with Singapore and is working to deepen economic integration with our region through trade and economic negotiations with Thailand, Japan, China and ASEAN. Indeed, many of these countries are themselves seeking to negotiate FTAs, including with the United States. We are also driving closer regional and trans-Pacific economic integration through APEC.

However, I agree that the multilateral or bilateral approach can not be wholly successful if our negotiating partners have a misinformed view that their existing protection is in their overall national benefit, and that lowering their trade barriers will advantage us and disadvantage them. Both multilateral and bilateral negotiations offer the opportunity to explain to our trading partners the benefits of transparency and to underscore the costs of protection to domestic communities.

You can be assured that Australia will continue to argue, in the WTO and other forums, for the virtues of full transparency and the benefits of domestic processes which expose the economy-wide consequences of trade liberalisation.

Thank you for raising your concerns with me. I have written to Mr Carmichael in similar terms.

Yours sincerely

ATTACHMENT 2

20 February 2004

Mr John Howard
Prime Minister
Parliament House
Canberra ACT 2600

Trade Policy

Dear Mr Howard,

I refer to our letter to you of 6 February, in which Professor Garnaut and I offered to develop a proposal which adds domestic transparency arrangements to existing WTO processes. Because trade policy is now focusing on issues relevant for the Doha Round, we have brought forward that offer in the attached draft.

There may be opposition to this initiative from people who still believe that liberalising world trade through the WTO can be pursued entirely through external processes. We are encouraged by your letter of 29 May that you do not share that view.

Yours sincerely,

Bill Carmichael
41A Storey Street
Curtin ACT 2605

DRAFT

DOMESTIC TRANSPARENCY ARRANGEMENTS IN THE WTO

AN AUSTRALIAN PROPOSAL

DRAFT

OVERVIEW

It is clear from developments in the Doha Round that progress in liberalising world trade through the WTO is at present problematic. It is important that the response to the problems that have developed reflects what has been learned from experience : that the influences working against better WTO outcomes operate in the domestic policy environments of participating countries, where the crucial decisions about reducing protection (trade barriers) are made ; that these negative influences, exercised by domestic groups who see liberalisation as detrimental to their interests, lose their power over domestic decision-making when balanced by a wide domestic understanding of the overall national benefits from adjusting to the domestic changes involved ; that progress now depends on raising awareness, within participating countries, of the national gains at issue in liberalising domestic markets; and that something must therefore be added to existing WTO processes to help governments and their domestic constituents work that out for themselves, in their own policy environment.

This proposal is based on that experience and reflects those insights. 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 through international negotiations and the outcome of the negotiating process itself. The domestic transparency arrangements proposed here are needed to reduce the present gap between expectations and outcomes. The test of its relevance is not whether it could move all nations immediately to a best performance, but whether it would expand the opportunity for substantially better outcomes over time.

Opening world markets through the WTO is determined by two separate, and potentially conflicting, processes. One involves international trade negotiations and leads to agreements by participating countries to reduce their trade barriers (domestic protection). This process takes place in the international arena, between governments, and is part of external policy. The other process takes place within individual countries participating in the WTO and involves decisions about which domestic barriers to offer in negotiations and, subsequently, how to meet the agreements reached. In the second process, which belongs to domestic policy, governments act alone. There is at present nothing in the WTO charter, processes or rules that requires or helps countries participating in the international process to address the domestic issues involved in liberalising.

There was a growing recognition, prior to the Uruguay Round, that the momentum in liberalising world trade through international negotiations was faltering and that something had to be done to restore it. This was reflected in the November 1982 GATT Ministerial 'crisis meeting', just three years after the conclusion of the Tokyo Round. The formation of the 'functioning of the GATT system' (the 'FOGS' group) during the Uruguay Round reflected the same concern, the justification for which has been confirmed by subsequent developments. For instance the agreements on agriculture reached in the Uruguay Round committed governments to liberalise, yet legitimised action to avoid the domestic adjustment involved in doing so. This ambiguity was necessary to make agreement possible. The one positive thing that has emerged from developments in the present Round, and reflected in the Seattle and Cancun ministerial meetings, is that they have highlighted the domestic causes of this ambiguity in WTO outcomes.

The nature of the problem

While trade liberalisation is pursued through the WTO as an external issue--involving international negotiations, agreements and rules--the influences working against better WTO outcomes operate in the domestic policy environments of participating countries. The external processes, on which the WTO presently relies, abstract entirely from those influences. They cannot address the issue primarily responsible for holding back progress in the WTO ---pressure at home from domestic producers seeking to avoid the (nationally rewarding) adjustment involved for them in liberalising domestic markets.

When governments refuse to include particular industries in the coverage of international negotiations or fail to honour the agreements reached to reduce protection, it is because they have not been able to mobilise a domestic commitment to accept the adjustment involved in doing so. The influences that gave rise to the recent market closing actions in the US, for instance, originated in the domestic policy arena and exercised power over domestic decision-making. Their power over the ability of the WTO system to deliver the national rewards available from multilateral liberalisation is pervasive. As we saw in Seattle and Cancun, they strongly influence national agendas for negotiations and thus the coverage of WTO negotiations. They also cause governments to minimise their market-opening commitments during

negotiations and subsequently to replace the forms of protection negotiated away with other, less visible, forms.

This power of protected producers over decision-making on protection (trade barriers) has been institutionalised in the major industrial countries—the EU, Japan and the US. For instance, US procedures and criteria for providing relief from import competition actually increase the difficulties US governments face in dealing with pressure for protection from domestic producers. In formulating its advice the US International Trade Commission is required to use narrow legal rules to determine whether a particular industry is being 'injured' by import competition. The positive domestic effects of liberalising domestic markets—for other domestic producers, for consumers and for the US economy as a whole—are not brought into account. The President and his advisers are left to work out for themselves the answer to the broader, more important, question-- whether it is in the national interest to provide relief from import competition. Thus the usual roles of advice and decision-making are reversed. The objective behind trade liberalisation-- to secure the national gains at issue-- is turned on its head as governments succumb to pressure from protected producers seeking to avoid the adjustment involved (for them) in liberalising domestic markets.

The same influences and institutional arrangements dominate advice and decision-making in Japan and the European Union—the countries initially responsible for corrupting world agricultural markets. These major industrial countries have relied heavily on international bargaining through the GATT and the WTO. In that context their focus has been on market access, not on liberalising their own barriers, and on trade liberalisation as an external commitment enforced by external rules. Their interest in the domestic issues involved in liberalising has consequently been intermittent—revived every ten years or so in each round of multilateral negotiations. It should therefore not be surprising that their 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.

So long as the response to these developments in the WTO system is seen just as an exercise in promoting the international surveillance of national barriers (as in the Trade Policy Review Mechanism), or securing greater observance of WTO rules, the problem will remain.

The case for a domestic transparency process

Since it arises from domestic influences which operate in the domestic political arena, which focus on domestic policy issues and which exercise power over domestic decision-making, the problem cannot be addressed from the outside or through international (WTO) rules. A way must therefore be found to link the outcome of trade negotiations more directly to the domestic consequences for participants.

An additional process is needed to underpin the WTO system—one that focuses on the positive (domestic) reasons for liberalising, rather than continuing to rely solely on what are increasingly perceived as negative (external) reasons for doing so. Ownership of this process must reside where responsibility for future progress in liberalising world trade now rests—in the domestic policy environments of individual countries.

The case for strengthening the WTO system in this way is compelling. It is as follows:

- The major gains available to individual countries liberalising through the WTO system come from reducing their own barriers. These are the gains each can make by liberalising unilaterally, and 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 does about its own barriers. The barrier reductions each country must make to enable the WTO system to deliver these additional gains are the same as those required to secure the gains from liberalising unilaterally. 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 do so is to meet international commitments.
- All the gains available from liberalising through the WTO therefore depend on the decisions governments make at home-- about their own barriers. The gains they collectively take away from the negotiating table depend on what each takes to it.
- In early Rounds of multilateral negotiations tariffs were the principal form of protection being negotiated. The simple decision rules involved in negotiating tariff reductions were responsible for the very substantial liberalisation that took place in North Atlantic countries in early Rounds. 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 is the case, for instance, with the recent US action to extend its farm subsidies. Moreover, the scope for replacing traditional forms of border protection with less visible, non-border forms is endless. The means used 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 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 US-- 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—and a need--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 involved. 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 involve adjustment for protected producers-- the once only price paid to secure the ongoing 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. They liberalise domestic markets because they want to secure the domestic gains from doing so.

There is 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.

The need for domestic transparency arrangements to underpin the existing external processes of the WTO was endorsed in the Leutwiler and Long reports (commissioned during the Round), 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. Meanwhile developing countries initiated a program of work, which began during the Uruguay Round, to examine the contribution domestic transparency procedures could make to international liberalisation. The Final Act of UNCTAD V11, 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'. (UNCTAD V11, 1988, Final Act, para. 5, sub-para. 4)

The institution identified as providing a model for the proposed transparency mechanisms was Australia's Industries Assistance Commission (which later 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 (G.A. Rattigan and W.B. Carmichael, 'Trade liberalisation: A Domestic Challenge for Industrial Nations', 1996).

The strength of this approach in underpinning the WTO system is that it addresses the underlying problem at its source. It recognises that governments will always be under pressure to avoid the domestic 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. It 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 leaves governments in full control of domestic policy, and more accountable domestically for WTO outcomes. 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.

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. Yet a decision to do nothing, because of the difficulty of advancing the issue in a negotiating context, is a decision to continue to pursue trade liberalisation solely as an external issue—as though it is not about nationally rewarding domestic economic development. The importance of the issue for restoring the WTO's ability to deliver nationally rewarding outcomes, not the difficulties of working through established modalities, should determine the priority given it.

The Australian proposal

An initiative to underpin the WTO system in this way must 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. Those 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, when 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 find the general design of arrangements that will achieve these objectives. Experience with existing domestic procedures will help identify the qualities needed.

The first step is to establish a Transparency Commission within the WTO, as part of the Doha Round outcome. This Commission would not replace any existing WTO process. Its charter would be to review existing domestic transparency institutions and identify the design of arrangements required to raise awareness within each member country of the national rewards from reducing its own barriers.

The Commission would be chaired by the Director-General of the WTO or his nominee, and would comprise no more than six people of substantial standing in public affairs in their own country. A pre-requisite for membership is a sound understanding of the role of international trade in economic development. Selection of the group would be from across the membership of the WTO. The Commission would have access to the resources of a secretariat.

The initial task of the Transparency Commission would be to review existing domestic transparency institutions in member countries. It would be required to report, by the end of this year, on the general design of domestic arrangements needed to build the national gains from multilateral liberalisation into national preparations for trade negotiations, and into the basis subsequently used to assess the demands of uncompetitive domestic producers seeking to avoid the (nationally rewarding) adjustment involved for them. After consideration of this report by a ministerial

meeting in early 2005, the Commission would be responsible for helping national governments implement the resulting domestic procedures.

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 that the major gains from liberalising in a multilateral context depend on what they do about their own barriers.

All countries participating in the WTO system have much at stake in seeing that consideration of the issues addressed in this proposal is advanced now. As exporters they might be expected to embrace an approach that strengthens the international bargaining process 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.

The response of industrial countries to this approach 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, the response of industrial countries 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 exporters in industrial countries.

If the major industrial countries ignore the issue, given its growing importance and their dominance in world trade that would provide a signal that seriously discounts the value of future multilateral trade negotiations. In some major developing countries the commitment to liberalise is still fragile. A negative response would strengthen the already strident voices in those countries arguing that the clock should be turned back to protectionism.