

AUSTRALIA AND THE WORLD TRADE ORGANISATION

**Submission to the inquiry into the WTO
conducted by
the Joint Standing Committee on Treaties**

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FOREWORD

Countries participate in the WTO system to secure the national economic benefits that are available from liberalising in a multilateral context. Those benefits materialise, however, only when countries participating in the WTO are prepared to accept the adjustment involved at home — for their own protected industries. When governments individually seek to minimise adjustment for their own protected industries, they cannot collectively (through the WTO) increase export opportunities in their respective areas of comparative advantage. The failure of major industrial countries in recent years to accept the domestic adjustment involved in liberalising through the WTO is eroding the economic benefits for all participating countries.

This submission outlines an approach which strengthens the ability of the WTO system to deliver those national benefits. It involves a domestic review mechanism that operates within individual countries to help governments (and their constituents) resolve the domestic issues involved in international liberalisation.

Trade liberalisation has been pursued through the GATT and the WTO as an external issue — involving international negotiations, agreements and rules. The WTO still relies entirely on these external processes, on the assumption that international commitments and rules can secure acceptance (within participating countries) of the domestic adjustment involved in liberalising. The proposed domestic review mechanism enables governments (and their constituents) to resolve the domestic issues that existing WTO processes are unable to resolve, and which have now stalled progress in the WTO.

A proposal reflecting this approach was sponsored by New Zealand and a number of other countries during the Uruguay Round. It was placed on the backburner in that Round to enable negotiating issues of greater immediacy to be finalised. In examining its relevance to the difficulties now faced by the WTO, and to the committee's terms of reference, we have drawn on views and concerns expressed in other submissions.

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

The consequences of this were manifest in the 'Battle for Seattle'. Although the failure to agree was clearly not directly caused by the fuss on Seattle streets, the demonstrations point to unresolved domestic political pressures, the relevance of which (for the future of the WTO) cannot be dismissed. Subsequent demonstrations at the World Economic Forum in Melbourne and Davos confirm that these are part of a trend that needs to be addressed in a systemic way, if the WTO and multilateral liberalisation are to move forward. The views of the anti-WTO demonstrators penetrated the living rooms of people around the world, and it is clear from submissions to the present inquiry that they struck a chord with many. The notion of the WTO as 'bad guy' is catching on.

In reality the WTO has no authority of its own. It is merely a set of rules and a negotiating forum, driven in both cases by what its member governments agree to. It follows that what we witnessed in Seattle was not a failure of the WTO, as many have concluded, but the failure of participating governments to provide the support it needs — by promoting greater awareness at home about what is at stake domestically in trade liberalisation. Without that support, domestic pressures will continue to spill over into the international processes of the WTO — which are neither designed nor equipped to accommodate them. Thus the continuing challenge for participating governments — which Seattle merely

served to highlight — is to devise a means by which these pressures can be accommodated in a way that will underpin good outcomes nationally and fruitful international agreements.

That was also the judgement of the recent World Economic Forum in Melbourne, which placed the WTO system on notice to lift its game. First, developing countries signalled they have not received the benefits multilateral liberalisation is meant to bring to member countries. Second, participants concluded that progress in the WTO now depends on winning the argument for liberalisation at home.

The thrust of the first message was delivered by the Indonesian Minister for Industry and Trade:

The WTO has been functioning for five years, but...the rules based approach has fallen short of our expectations. (Reported in *The Australian*, September 14, 2000)

The WTO relies on international rules and dispute settlement procedures to enforce compliance with the international agreements to liberalise. These alone cannot ensure compliance, for two reasons. First, the scope for subverting WTO agreements (by replacing the forms of protection now in use with others) is endless.¹ Second, and of greater importance, they do not address the underlying problem — pressure at home to avoid the domestic adjustment involved 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 trade barriers, it is because they have not been able to mobilise a domestic commitment to accept the adjustment involved in doing so.

The total reliance on international rules and market access agreements has not empowered participating governments to liberalise their own markets in the face of pressure at home to avoid the adjustment involved. Progress in areas of special interest to developing countries (textiles and agriculture) has stalled, as industrial nations — particularly the European Union, Japan and the US — preach the benefits of trade liberalisation while succumbing to pressure from their own protected producers to avoid adjustment.

Developing countries are consequently sceptical about the value of a new Round.

The second message from the World Economic Forum was widespread agreement among participants about the causes of this imbalance in outcomes. Speaker after speaker emphasised the need to raise public awareness, within participating countries, of the domestic benefits available from trade liberalisation. Such awareness is needed to counter the negative perceptions, fostered by those facing adjustment at home, that honouring WTO commitments to open domestic markets simply hurts domestic producers for the benefit of foreigners.

Submissions to the present inquiry help explain why progress in the WTO depends on winning the argument for trade liberalisation at home. There is a marked contrast between submissions from those who are included in consultative arrangements and those who are not.

In general, submissions from individual members of civil society (those not represented by peak industry, business or professional organisations) reflect alienation from WTO processes and outcomes. This is expressed, for instance, in concerns about:

- ◆ Loss of national sovereignty and social autonomy as a result of the external processes through which commitments to reduce protection are reached and enforced;
- ◆ Exclusion from key domestic decision-making processes affecting general domestic welfare;
- ◆ Increasing disparity in incomes within WTO countries, perceived as resulting from trade liberalisation;
- ◆ Depredation of the environment, perceived as being caused by exploitative practices condoned by the WTO.

These submissions, from groups and individuals who feel excluded from WTO processes, have a common theme — loss of domestic control and accountability for the domestic effects of liberalising through international bargaining. The dynamics of exclusion ensure that those who feel shut out of consultative arrangements will see the consequences of trade liberalisation through a prism which focuses only on its negative effects.²

Submissions from industry and business organisations, on the other hand, generally express satisfaction with present arrangements and see no need for change. These are the organisations that are included in present consultative arrangements. The Australian Chamber of Commerce and Industry, for instance, concluded that:

While commerce and industry sees merit in principle in ... engaging the community in matters of national importance, we would question the net benefit ... to our trade policy. (Inquiry Submissions, vol. 3, p 10)

The issues involved in liberalising through the WTO, post-Seattle, differ from any that industry and business have had to deal with to date. When reviewing Australian participation in the GATT and WTO, one experienced observer described the procedure relied on in the past in the following way:

Business has traditionally negotiated policy issues at a peak level. The heads of business lobbies have had open access to the ministerial offices and that has generally sufficed to get their message across. (David Uren, in *The Australian*, May 27-28, 2000)

While this may contain some overstatement, it clearly has a basis in fact and reflects a perception which must be addressed in any review of the WTO consultative process. If ownership of that process is restricted, so will be the commitment to liberalise. The argument for trade liberalisation cannot be won in this way.

So long as sections of the community are closed out of the processes through which we participate in the WTO, domestic policies on trade will remain a sphere of unresolved conflict.³ Conversely, public procedures which make transparent the effects (on national welfare) of what we propose to do about our own barriers in the negotiating process narrows the range of disagreement about the domestic consequences of participating in the WTO. While it will not eliminate resistance to change, it enables the grounds for such resistance to be weighed against the community-wide effects. For this reason, establishing a form of public accountability for the domestic consequences is an improvement urgently needed in domestic arrangements for participating in the WTO. No section of the

community is excluded from the public procedures which operate when we reduce protection unilaterally. Since the domestic issues are the same, why should there be less community involvement when we reduce protection through the WTO?⁴

Prime Minister Howard has explained why the community should be involved:

The collective responsibility we all hold ... is to convince people ... (of) its potential to build prosperity for themselves. (In The Australian, Sept. 12, 2000)

Since attending APEC and WTO meetings Mr Howard has been emphasising that future progress in liberalising through international bargaining depends on the level of commitment (within participating countries) to accept the adjustment involved, and that this depends on domestic constituents becoming aware of the domestic gains at issue. He has argued that these gains need to be brought into sharper public focus at home, to counter the pressure governments face from protected producers seeking to avoid the (nationally rewarding) adjustment involved for them.

Opposition Leader Kim Beazley has expressed a similar view. After a detailed review of the Opposition's trade policy 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. (Monash APEC Lecture, 18 June 1999)

He emphasised that the Opposition's trade policy accords a high priority to changing the negative public perceptions about the domestic effects of liberalising:

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

These views reflect an emerging consensus about what is holding back progress in the WTO.⁵ It is the positive or negative perceptions at home about the domestic consequences of liberalising that ultimately determine how much, indeed whether, liberalisation takes place.⁶ The WTO system needs a process which emphasises the positive (domestic) reasons for liberalising, rather than continuing to rely solely on what is increasingly perceived as negative (external) reasons for doing so. It must reflect what has

become obvious — that external commitments are not providing a persuasive domestic reason for lowering trade barriers.⁷

These views are not new. A reminder of the need to strengthen the WTO system in this way was provided by Leon Brittan, Vice President of the European Union, in mid-1998. He observed that the greatest challenge then facing it was:

to pursue ... multilateral liberalisation in the face of domestic pressures in the opposite 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. (The Australian, 24 June 1988)

Subsequent events — the failure of the ministerial meeting in Seattle, US action on lamb imports and the additional \$US 16 billion support for American farmers — confirm that those domestic pressures continue to dominate trade policy outcomes. There has been a considerable increase in the use of non-tariff support measures to shield uncompetitive industries from international competition. The increase has been greatest in major industrial countries — in particular the USA and the European Union. Japan has the highest proportion of trade subject to such measures. These are the countries primarily responsible for corrupting world agricultural markets and maintaining high levels of protection for their textiles, clothing and footwear industries.

Those countries have relied heavily on international bargaining through the GATT and WTO. In that context their focus has been on access to external markets — not on liberalising their own markets — 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 as each Round of multilateral negotiations becomes due. Their preoccupation with market access and external processes has undermined domestic understanding that the major gains for each country participating in the multilateral process depend on what it does about its own barriers. The message from Seattle and Melbourne is that building this domestic understanding is a precondition for restoring progress in the WTO.

It should not be surprising that these governments are having difficulty mobilising a strong domestic commitment to reduce their own barriers in a trade bargaining context, and to maintain reductions agreed in that context. If their domestic constituents are aware of the adjustment costs to particular domestic industries or firms, but know little or nothing about the domestic benefits, they are likely to be supportive of the potential losers. In that event, decision-makers may feel less inclined to pursue the courses that would advance overall domestic welfare; or, sensing an absence of public concern, they may feel less inclined to question the pleadings of those interests that stand to lose from policies that are nationally rewarding.

The underlying problem will not go away. 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, it cannot be addressed from the outside or through international (WTO) rules. The issues needing to be resolved are domestic issues. For this reason, domestic transparency arrangements which raise the visibility of the domestic gains from liberalising are essential.

This was the near universal conclusion of groups engaged to examine the problem during the Uruguay Round. The Leutwiler and Long reports (commissioned during the Round), developing countries (in UNCTAD V11) and the IMF (in its review of the Round) all came to the same conclusion — 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.

What does this convey about WTO procedures? It tells us they should *begin* with domestic processes which resolve the domestic issues involved in liberalising and *culminate* in international negotiations and agreements to reduce protection — not the other way around. The domestic commitment to accept the adjustment involved can then result from a conscious domestic choice, made on the basis of 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 adjustment -averting demands of domestic pressure groups.

An approach aimed at achieving this was contained in the Long report, commissioned during the Uruguay Round, and was subsequently supported by developing countries. It involves 'domestic transparency procedures', operated within and by individual WTO member countries, to help them resolve the domestic trade-offs (between the gains in national wealth from reducing their own barriers and the resulting adjustment for uncompetitive domestic producers) when establishing their negotiating agenda for each Round — and when domestic producers seek less obvious forms of protection to avoid the (nationally rewarding) adjustment involved for them.⁸

The approach involves a change in the way the commitment to liberalise is generated. It also involves a change in the rationale for liberalising. The change involves moving away from total reliance on external processes, by introducing a new process operating within participating countries. As a result, ownership of the key decision-making process moves into the domestic policy arena of participating countries. Domestic constituents are no longer shut out of the processes generating the commitment to liberalise. Everyone, including the potential losers from trade liberalisation, has access to the domestic procedures which underpin the WTO. The domestic benefits at issue in liberalising, as well as the potential domestic adjustments, are brought into account in these procedures. Public perceptions about the domestic consequences become less one-sided, less captive to the influences responsible for negative outcomes. Trade barriers are no longer reduced simply to meet what are perceived to be negative (external) commitments, but in order to secure the positive (domestic) rewards at issue. When governments liberalise in this context it is not because constituents holding contrary views are by-passed or their views ignored, but because those constituents have either changed their mind or lost the argument.⁹ In this context the domestic trade-offs can be brought into play and resolved, because governments and their constituents know what is at issue and have something tangible to hold onto. Trade liberalisation becomes a more conscious, better informed, domestic choice.¹⁰

The strength of this approach in underpinning the WTO system is that it:

- ◆ recognises that governments will always be under pressure to avoid the domestic adjustment resulting from WTO agreements until those they represent are persuaded that the national benefits which liberalisation makes possible outweigh the adjustment costs;
- ◆ 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 (trade barriers) are made;
- ◆ leaves governments in full control of domestic policy;
- ◆ involves public procedures, from which no domestic interest is excluded, thus increasing the likelihood of a more comprehensive domestic commitment to liberalise; and,
- ◆ introduces the larger domestic rewards from liberalising, thereby arming governments against pressure from protected domestic producers seeking to avoid the adjustment involved for them.

By reducing the complexity and mystique that has surrounded the rules based system, the approach also reduces the need for the myriad trade lawyers, trade strategists and fly-in experts that have accumulated around the WTO.¹¹ And, as our own experience in the Tokyo and Uruguay Rounds attests, it will deliver greater rewards for participating countries.¹²

A proposal to discuss this approach was placed on the negotiating table during the Uruguay Round by New Zealand. Its trade minister, Mike Moore(now Director-General of the WTO.), explained the reason for doing so in the following way:

*The political pressures to avoid structural adjustment ... won't disappear There is ... scope for ensuring that the interests of industry specific lobby groups are balanced by a wider appreciation of the broader ... requirements for sustained economic growth.*¹³

Consideration of the approach was placed on the back burner, however, mid-way through the Uruguay Round. That is where it still rests.

How important is it that the issue is dealt with now? Australian farm organisations are in no doubt. As the President of the National Farmers' Federation pointed out:

The long term future of Australian agriculture will be determined more by access to world markets and reform of the international trading system than any other single issue. (In The Australian, 20 May 1998).

The US action to restrict imports of Australian lamb highlights its importance for Australian agriculture and for the government's commitment to restore economic activity in the bush. That outcome resulted from domestic procedures that increase the difficulties governments face in dealing with pressure from protected domestic producers. US procedures focus on the problems international competition poses for industries under pressure to adjust and have nothing to do with national welfare. The positive domestic effects of such competition, on the economy as a whole, are not brought into account. In this way, the logic of multilateral liberalisation is turned on its head. That logic, which is built on the *national* benefits from trade liberalisation, is undermined as governments succumb to pressure from protected domestic producers who would be adversely affected.

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

Playing hardball against other countries' barriers in this way is a self-limiting strategy. While it may force some heavily targeted markets to open, it makes no enduring contribution to either liberalisation or multilateral cooperation in trade policy. A domestic discipline needs to be built into the WTO system itself. Another strategy directed from the outside at particular domestic interest groups is not a substitute for that.

The established response to the issue still holds to the view that international rules and agreements alone are able to bring about domestic reform. That view was expressed recently by Alan Oxley, Australia's representative in the Uruguay Round:

Agreements with binding rules ... enable governments to see trade liberalisation at home. (The Australian, 19 October, 1998)

He also explained the consequences of relying on these processes:

Some pockets of higher protection would remain, such as agriculture (sic), but that is reality.

This approach has not been able to open agricultural markets because it does not address the underlying problem — pressure at home to avoid the adjustment involved in liberalising domestic markets. The problem is not limited to agriculture, however. It affects all our (existing and emerging) export industries and, hence, our future export performance. This is not an argument for abandoning the WTO system, but for strengthening it — by introducing a positive domestic discipline to counter the influences making progress so difficult.

It is important that Australia's response to the issue, when WTO discussions resume, is based on what has been learned from experience: that the influences working against better WTO outcomes originate in the domestic policy environments of participating countries; that it is unrealistic to install a system of international rules and expect it, by itself, to deliver domestic reform; that the domestic issues at the heart of trade liberalisation can only be resolved in the domestic policy arena of participating countries; and that something must therefore be added to existing WTO processes to help governments and their domestic constituents work through those domestic issues for

themselves, in their own policy environment. It becomes politically realistic for governments to secure nationally rewarding outcomes only when the pressure from domestic groups who see liberalisation as detrimental to their interests is balanced by a wide domestic understanding of the overall domestic benefits of adjusting to the changes involved. The approach outlined in this submission, and sponsored by New Zealand in the Uruguay Round, addresses that issue.

Australia is a small player in world trade and, unlike the EU or the US, lacks the bargaining power to insist on changes to WTO processes. On this issue, however, we have an opportunity to influence events by the relevance of the approach we offer to deal with it. We can continue to fiddle around the edges of the problem, sponsoring ad hoc strategies to enhance our negotiating position in particular markets in the next Round, or we can promote a more comprehensive (and less intrusive) solution — by ensuring that the proposal sponsored by New Zealand in the Uruguay Round is on the agenda when the Seattle talks resume. Which approach is more likely to engender trust and confidence in the WTO system, and to deliver nationally rewarding outcomes for participants? Which leaves governments in full control of domestic policy, yet more accountable domestically for WTO outcomes?¹⁴

ENDNOTES

¹ Many of the new forms belong to domestic policy and, for that reason, are arguably beyond the authority of international agreements. The evaporating distinction between trade policy and domestic policy measures was emphasised as early as 1972 by the OECD. See Jean Ray et al. *Policy Perspectives for International Trade and Economic Relations*, Report to the Secretary General, OECD, Secretariat 1972.

² Many of these submissions reflect a view that trade liberalisation (and the WTO) work against our social goals, that good trade policy is bad social policy. It is possible to illustrate why there is no inherent conflict between these two areas of policy; that our ability to service social policy advances depends on our ability to increase national wealth; and that this in turn depends on our ability to sustain economic reform (including trade liberalisation).

Our aging population, for instance, creates a very great social policy challenge. In the next thirty years the proportion of Australians over sixty-five will almost double, from 12 per cent of the population in 1997 to 22 per cent in 2031. It has been estimated that the cost of providing long term aged care will more than double in real terms from 1997 to 2031, to over \$14 billion in 1996-97 prices. This is only one component of total social expenditure on the aged. While it is not possible to put a figure on the increased expenditure required for other components, it appears likely that the cost of providing medical and hospital services to the aged will also increase very substantially.

With the additional demands on the nation's resources by defence, education and other established policy priorities, it seems unlikely that we will be able to service the health and other needs of an aging population unless we can increase national wealth. Trade liberalisation and other elements of economic reform provide the means by which we can do that. The potential benefits for the twenty two per cent of Australians who will be over 65 in 2031 are therefore relevant in assessing the social effects of economic reform.

Those who argue that we should have free education and health services, and universally available aged care, must logically support economic reform as the means of achieving these desirable social objectives. On the other hand, members of the community holding negative views about the social effects of participating in the WTO need to be reassured that

- ◆ trade liberalisation is not an end in itself, but is an important part of the means by which we generate the wealth needed to sustain and enhance community welfare
- ◆ when we slow or postpone action to reduce our own trade barriers we do the same for our capacity to advance (or sustain) community welfare
- ◆ pursuit of the benefits from a market economy does not translate into pursuit of a market society, where community welfare and social policies are subordinated to the preferences and priorities of market players.

³ It is not being argued that governments should forgo the right to seek advice from particular interests but simply that, since the purpose of trade liberalisation is to enhance community welfare, the rest of the community should be included in that process. That is desirable for three reasons: to maintain domestic accountability to domestic interests who stand to win and lose from liberalisation; to ensure that the potential gains from international trade liberalisation are realised domestically; and to provide stability and durability to reform and confidence in international negotiations.

The present focus on industry and business representation in the consultative process reinforces a perception that trade liberalisation is primarily about advancing business interests. While competitive Australian producers can be expected to prosper as a result of it, that in itself is not the justification for liberalising. The justification is the increase in national wealth it makes possible, which is a precondition for enhancing community welfare. As Prime Minister Howard pointed out recently:

...if economic reform does not deliver benefits for people, then it's not worth embracing. (In The Australian, September 12, 2000)

Since the prospect of enhancing community welfare is the justification for asking domestic constituents to accept the adjustment involved, and since liberalisation generates domestic winners and losers, this should be reflected in the coverage of domestic consultative arrangements. While no domestic interest should be excluded from the consultative processes, none should have preferred access to them. This applies equally to NGOs as to peak industry and business organisations.

⁴ The answer, at least in part, is that the processes and rules underpinning the WTO have been devised as though international trade liberalisation involves only external issues. That has influenced how negotiators have seen their job. In early preparations for the Uruguay Round, for instance, our government was advised against community involvement on the grounds that it would disclose Australia's negotiating position to other parties in the trade bargaining process:

From a trade perspective ... the very process of public inquiry... advertises to the world the very nature of the Government's concerns and likely direction of reactions, thereby leaving little or no negotiating possibilities. (Department of Trade submission to government, following the Uhrig review of the IAC, 1984)

That advice reflected a view that keeping Australia's negotiating position secret was more important than securing a domestic commitment to accept the outcome. Developments since the Uruguay Round demonstrate the effects of that approach in generating negative community perceptions about WTO processes.

⁵ The importance of the issue is also being acknowledged in other WTO countries. For instance, United States Deputy Trade Representative Fisher observed during the 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. (In *The Australian*, 29 June 1999)

⁶ This lesson has been reinforced by global experience with economic reforms of all kinds over the last twenty years. It is now widely acknowledged by international development agencies involved in helping to implement economic reform that ‘ownership’ of the reforms by the countries involved is absolutely essential, that reform cannot be imposed from the outside. For this reason international development assistance agencies are now questioning whether it is worthwhile lending money to support reforms if there is not wholehearted support for the reforms within the receiving country.

⁷ The GATT Secretariat drew attention to the problem as early as 1983, before the Uruguay Round. In its annual assessment of developments in world trade for that year it observed that:

It was the original purpose of the GATT — and of the broader concepts of multilateralism, or international economic cooperation — to strengthen governments against the particularist pressures emanating from national economies. This purpose has almost been lost ; a new joint initiative is needed to retrieve it. (International Trade 1982-83, Geneva).

⁸ These procedures meet the now widely recognised need to facilitate greater transparency **within member countries** of the economy-wide effects of their own policies. The difference between this approach and the Trade Policy Review Mechanism(TPRM), introduced in the Uruguay Round, was described by developing countries in the following way:

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

(UNCTAD, *Trade Policies, Structural Adjustment and Economic Reform*, Geneva, 17 July 1992)

The approach through the TPRM is limited, in that the surveillance takes place in the international arena, between trade officials, and not at home between domestic constituents—where decisions about trade and domestic adjustment are made. It therefore cannot resolve the domestic issues involved in liberalising through the WTO.

⁹ Those facing adjustment as a result of liberalising domestic markets are more likely to accept it if they can see that it will promote gains for the community. Conversely, if the community as a whole is well informed about those gains, small groups adversely affected by liberalising initiatives which are generally perceived to be beneficial will be hard pressed to get public support for resisting change.

¹⁰ Dr Clayton Yeutter, who had conduct of US trade policy in the Uruguay Round and of policy on US agriculture in the Bush Cabinet, has also endorsed these procedures as a necessary part of national preparations for future Rounds.

¹¹ The language in which the WTO is usually discussed tends to obscure, for those not familiar with it, what is at issue for them in trade liberalisation. Access to its rules is available only to those who can command the resources needed to master their intricacies. Both help build negative public perceptions about existing WTO processes. The more litigious those processes become, the more they will fuel negative public perceptions about the consequences of participating in the WTO.

¹² The greatest gains for countries liberalising in a multilateral context depend on what they do about their own trade barriers. That helps explain the many voices now calling on governments participating in the WTO to raise domestic awareness of those gains. These

include the Long Report in 1987, Leon Brittan and Clayton Yuetter in 1998, and Prime Minister Howard and Opposition Leader Beazley since then. The preoccupation with market access in international trade negotiations has taken our eyes off the domestic source of the major gains.

More than 80 per cent of Australia's gains from the Uruguay Round, for instance, came from our own reductions. These were undertaken unilaterally, to secure the domestic gains involved, and not in response to external commitments. We simply offered our nationally rewarding unilateral reductions to meet Australia's multilateral commitments. In the Tokyo Round, on the other hand, we reduced our frontier barriers significantly (in order to meet our obligations arising from multilateral negotiations), but we did so in a way that left intact the barriers protecting our less competitive industries. This increased the disparities in domestic protection, and minimised our own gains from participating in the Tokyo Round.

We could reduce the barriers protecting our least competitive industries when the domestic costs of maintaining them was the issue, but not in order to honour external commitments. Our own experience confirms the message conveyed by Leon Brittan when he was in Australia in 1998: countries participating in the WTO are less able to open their own markets when they face strong domestic pressures in the opposite direction. Domestic constituents therefore need to be convinced of the case for opening their own markets.

Paradoxically, the WTO's ability to deliver access to world markets for Australian farmers depends on placing much greater emphasis, in national preparations for future Rounds, on the domestic gains from liberalising domestic markets and less on attempting to negotiate an exchange of market concessions. EU countries, for instance, have so far shown no interest in reducing agricultural protection through WTO negotiations. If they decide to do so, it will be because their constituents have concluded that the cost of maintaining the protection required to sustain domestic production is too high.

¹³ In a letter to the New Zealand Business Roundtable, 4 February 1987.

¹⁴ Opening discussion of this issue in the WTO now is an unexceptionable first step. If participating governments recognised the need for some form of domestic underpinning, this could be achieved initially by an agreement that each will examine (through public procedures) any request made by their own industries for exemption from the coverage of negotiations or from agreements to reduce trade barriers—the merits of such claims to be assessed against the national gains at issue. That is the antithesis of the procedures which led to the US restrictions on lamb, and would help counter the negative influence protected producers now have on the conduct of trade policy at home. It would also help overcome negative public perceptions about the domestic consequences of WTO processes.