

Other global trade issues affecting the WTO

- 4.1 Some other issues emerged from the hearing. These issues were not directly related to Cancun or directly to aspects of the WTO, but nonetheless will likely have a bearing on the current negotiating round and the world trading system in the future.

Doha Round progress in 2004

- 4.2 In the United States the November 2004 presidential election is likely to slow American momentum in negotiations, not only through the shift in focus to domestic politics but also through the possible replacement of the US Trade Representative Bob Zoellick.
- 4.3 Similarly the EU is heavily engaged in preparing to integrate ten new member countries in 2004. This task involving the integration of some 75 million people is clearly a demanding one.¹ Internal pressures are likely to prompt review of some of its trade policies, such as the Common Agricultural Policy.² These are all likely to distract from the EU's focus on the WTO negotiating round.

¹JSCFADT, *Expanding Australia's trade and investment relations with the countries of Central Europe*, p 15.

²JSCFADT, *Expanding Australia's trade and investment relations with the countries of Central Europe*, p 24.

- 4.4 Additionally EU Trade Commissioner Pascal Lamy's term will expire in October 2004.³
- 4.5 WTO General Council Chair Carlos Perez del Castillo, Chair of the WTO Agriculture Negotiating Group Stuart Harbinson and chairs of the other WTO negotiating groups and bodies also stepped down in February 2004.
- 4.6 Japanese Ambassador Shotaro Oshima has subsequently been appointed the new chair of the General Council and New Zealand Ambassador Tim Groser the chair of the WTO Agriculture Negotiating Group until the next WTO Ministerial Meeting.

Multilateralism versus bilateralism in trade

- 4.7 In response to the difficulties in the multilateral arena, the gravity of trade liberalisation efforts have shifted somewhat in several regions towards bilateral or regional trade liberalisation.
- 4.8 This shift in gravity is partly true for Australia although the government remains committed to the Doha Round and the WTO. It views Australia's bilateral, regional and multilateral policies as 'mutually supportive means to a common end', not alternatives.⁴
- 4.9 This shift has also prompted a vigorous debate in the Australian media about the relative merits and costs of the two approaches.
- 4.10 The debate, which was reflected at the hearing, focuses on several issues as covered below.

Competitive liberalisation

- 4.11 This shift of focus to bilateral trade liberalisation is explained in terms of 'competitive liberalisation'⁵ - whereby the momentum for global trade liberalisation is enhanced or sustained through a range of bilateral and regional trade liberalisation deals. (See Appendix E for recent growth in Asia Pacific free trade agreements.)
- 4.12 This approach addresses the issue of what action a government can take when faced with a slow or stalled multilateral negotiating round.

³ DFAT, *Transcript*, p 30.

⁴ DFAT, *Advancing the National Interest*, p 7.

⁵ Alan Oxley, *Transcript*, p 42.

Should it wait for the conclusion of a multilateral round or should it pursue trade liberalisation through bilateral or regional free trade agreements.

- 4.13 Clearly the government has chosen to pursue liberalisation through bilateral, regional and multilateral means though it views these as mutually supportive means contributing to a common end – freer world trade.⁶
- 4.14 Alan Oxley believes the strategy of competitive liberalisation is already working to Australia's advantage. He cited Indonesia's recent interest in a trade liberalisation agreement with Australia⁷ as an example of a liberalising urge nurtured by Australia's recently concluded FTAs with the US, Singapore and Thailand.

'Multilateral only' approach to trade liberalisation

- 4.15 The second approach is more firmly focused on the benefits of multilateral trade liberalisation. The key issue in this case is whether the shift in gravity towards bilateral FTAs has detracted from the multilateral round.
- 4.16 Ross Garnaut believes this is the case. He believes some nations, including Australia and the US, have lost interest in multilateral liberalisation.⁸ He also argued that by shifting our focus away from multilateralism to bilateralism, we may detach ourselves from Asia.⁹ Clearly it is too early to tell whether or not this will occur.

Trade creation versus trade diversion

- 4.17 The arguments for and against the competitive liberalisation strategy usually centre on the relative economic benefits of FTAs – do they create more trade than they divert.
- 4.18 This of course is a complex, technical issue which cannot easily be resolved in such a forum. There was, however, some discussion about a relevant Productivity Commission report which addressed aspects of this complex issue.¹⁰

⁶ DFAT, *Advancing the National Interest*, p 7.

⁷ Alan Oxley, *Transcript*, p 42.

⁸ Ross Garnaut, *Transcript*, p 17.

⁹ Ross Garnaut, *Transcript*, p 17.

¹⁰ The report is entitled *The trade and investment effects of preferential trading arrangements – old and new evidence* (staff working paper), Productivity Commission, May 2003.

- 4.19 The World Bank, however, has developed a simple test for assessing the merits of preferential trade agreements (bilateral or regional).¹¹ This test was explained to the committee by Andrew Stoler. On the issue of the benefits of liberalising FTAs, he suggested two key questions should be asked:
- Whether or not the negotiating partners are intending to enter into an agreement that they would enter into multilaterally.
 - And whether the negotiating partners would be willing to extend that same liberalising agreement to others in the future.¹²
- 4.20 To date Australia's preferential trade deals have been positive forces for trade liberalisation.

Third wave trade liberalisation agreements

- 4.21 The Australian agreements with New Zealand (CER), Singapore, Thailand and the US are 'third wave' agreements which include trade liberalisation measures not yet incorporated in the WTO.¹³
- 4.22 Put simply, these agreements liberalise trade more than the current WTO round seeks to do and as such they comply with the letter and spirit of the relevant GATT and GATS articles pertaining to preferential trade deals.

Conclusion

- 4.23 DFAT believes the challenges Australia faces in this the Doha negotiating round are considerable.¹⁴
- 4.24 All countries involved in the process are hedging their bets. As Peter Drahos explains about the US, they like all countries adopt strategies to maximize their national interest in fora such as the WTO.¹⁵ It is important that Australia understand this and coordinate a strategy to respond accordingly.¹⁶

¹¹ WTO, *World Trade Report 2003*,

(http://www.wto.org/english/news_e/pres03_e/pr348_e.htm)

¹² Andy Stoler, *Transcript*, p 45. See also *World Trade Report 2003*, p 66.

¹³ Andy Stoler, *Transcript*, p 35.

¹⁴ DFAT, *Transcript*, p 47.

¹⁵ Peter Drahos, *Transcript*, p 44.

¹⁶ Peter Drahos, *Transcript*, p 44.

- 4.25 To increase the chances of success in the round, DFAT believes that the big players, the US and the EU, need to 'provide much clearer leadership in...negotiations', since the issues they must address are very much at the core of interests of all members.¹⁷
- 4.26 Four months after Cancun, it is interesting to note, renowned economist Jagdish Bhagwati is optimistic about the Doha round, 'None of the players, now that their passions are spent, have any interest in a failed Doha Round'.¹⁸
- 4.27 Echoing that sentiment for Australia, DFAT finished the hearing by saying that 'there is no real alternative for Australia other than a strong and active multilateral system'.¹⁹
- 4.28 The WTO is a complex and important organisation which protects small countries like Australia through its rules, disciplines and the dispute settlement process. There 'simply is no alternative on the future role of this organisation for the economic growth and prosperity of Australia'.²⁰

Senator Alan Ferguson
Chair
23 June 2004

¹⁷ DFAT, *Transcript*, p 47.

¹⁸ Jagdish Bhagwati, *Don't cry for Cancun*, Foreign Affairs, Vol 83 No. 1, Jan/Feb 2004.

¹⁹ DFAT, *Transcript*, p 47.

²⁰ DFAT, *Transcript*, p 47.

