

Submission to the Joint Standing Committee on Treaties
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Australia's relationship with the WTO - the return of cultural cringe

The failure at Seattle hurt Australia more than anyone else. Yet the prevailing commentary in Australia is not that Seattle is a disaster, but the inevitable result of the excesses of globalization. It is easily said in Europe and parts of North America today that globalization has gone too far. The sentiment has been recruited as the latest defence for keeping the most highly protected markets in the world closed. Protection in Europe and North America restricts job growth in Australia and the rest of the world today as much as it did 25 years ago. Global trade liberalization is the only antidote. Yet for the first time in nearly 30 years opinion in Australia is reflecting the interests of other countries and supporting policies which advance the interests of protection and work against growth and employment in Australia. Why has this occurred?

Why the WTO matters to Australia

The predecessor to the WTO, the General Agreement on Tariffs and Trade (GATT), is the original instrument of globalization. This is an important point to make at the outset. The GATT promoted the multilateral trading system and open markets for global trade. The GATT principles enabled globalisation to proceed whilst respecting the national sovereignty of GATT members. Globalisation spawned prosperity wherever it had the opportunity.

It has become fashionable in Australian politics to eschew the word "globalization" and to downplay trade liberalization. A by-product is to diminish the importance of the WTO. We should reflect on why the WTO is important to Australia. Australia is one of the world's original global traders. Few countries trade globally; most trade with regional neighbors. Eighty percent of Canada's trade is with the US. Fifty percent of the trade of most Western Europeans is with other Western Europeans. For most members of APEC, the biggest export market is the US. Australia's trade is spread evenly between New Zealand, Asia, the US and Europe. As we increase the share of exports earned by manufactures and services (and diversify the traditional dependence on minerals and agriculture) we are increasing the global spread of our exports.

The WTO rules create opportunities to compete in global markets. Its rules are more important to Australia than most other countries. We are a major exporter of agricultural products. This is one of the most restricted sectors in world trade. Australia cannot hope to encourage the EU, Japan or the US to reduce trade barriers to agricultural imports through bilateral pressures or agreements. The only hope for global reduction of trade barriers to agricultural exports is through the WTO.

How anti-globalization sentiment is turned against the WTO

Global reform of trade in agriculture was the major issue on the table on Seattle. The protesters did not see it this way. They reckoned the WTO either gave US multinational companies unrestrained rights to run riot in developing countries (as well as the US) or that it was an institution dominated by faceless foreigners dressed in black.¹ Negotiators from developing countries were speechless when US protestors asserted to them that the WTO worked against developing country interests. To developing economies, the WTO is their only hope to lever open US and European food and textile markets.

The protests were not responsible for the failure at Seattle². Nevertheless, the impact of their actions has been to consolidate anti-globalization as a mainstream value in public affairs. Accordingly the dominant political values in mainstream politics in Europe or North America are:

- not to advocate globalization or free trade,
- to accept that globalization has had unfortunate social effects
- not to challenge contentions that:
 - the global condition is worse: measured by a wider global gap than ever between rich and poor
 - there has been an excessive regard for economic reform and inadequate attention paid to social welfare nets
 - governments are caught in a policy trap - they must cut taxes, reduce public expenditure and privatize if they are to operate in the global economy; and that
 - there are no benefits to globalization.

These political values have been extended to attitudes towards the WTO. Trade liberalization, like globalization, has been pursued to an "uncaring" extent; the WTO needs to be made "more humane" and should take more account of non-trade issues. There should be restrictions on trade to protect the environment (this is argued principally in Europe), it should promote proper labor standards (argued in the US) and non-governmental organizations, NGOs, (or civil society) should have rights of representation in the WTO (argued in both the US and Europe).

The groups which advocate such reform of the WTO reflect three general perspectives. First, the dominant critique of the WTO is a political critique. The WTO promotes free market economics, therefore it is depicted by those who object on political grounds to

¹ This is a common theme in US popular culture and well exploited by Ralph Nader's organization, Public Citizen, over the trade and environment issue. When the GATT's dispute resolution system first ruled that the US was not entitled to restrict imports of tuna from Mexico if Mexican fishing boats did not apply the same measures to protect dolphin which the US required of US tuna fishing boats, Ralph Nader's organization ran a public campaign lambasting "GATzilla" for attacking Flipper and ran full page ads in the mainstream US media showing the GATT panelists as unknown figures - three black (foreign) silhouettes controlling what Americans can do.

² The failure at Seattle was the result of inadequate preparation. Delegates put too much on the table for Ministers to digest. The meeting was poorly managed and the commitment of the US and the EU to secure a result was wanting.

free market economics as an instrument of global capitalists. The most common poster carried by protestors at Seattle was the small one which said " People, not \$". Post-Seattle protests in Europe have been mounted by groups which depict themselves as "anti-capitalists". Second, there are Green groups who contend that the WTO is inimical to environmental interests. Their points of view are given considerable credence, but in most cases they reduce to the same the political objections of the criticisms described above. Most Green groups have adopted the anti-capitalist philosophies of the old extreme left. Finally, there is no concession by these groups that the WTO creates any economic welfare benefit for developing countries. NGOs in western societies tend to claim to represent the interest of developing countries yet there is usually a significant gap between what they purport to be the interest of developing economies and what developing economies themselves describe as their self interest³.

Europe's tradition of protection

No case can be made that the WTO has to be "greened" because the terms of its agreements prevent management of the environment.⁴ However in Europe, the trade ministry of every member of the EU is bound to accept EU policy that sustainable development should be the objective of all international agreements and institutions. So when environmental groups in Europe contend that the trading system needs to be adjusted to provide for environmental interests, there is uncritical acceptance of this.

This is the effect of the impact on politics in Europe of pressure from Green parties. These policies also mesh with a tradition in Europe of protecting industries which process commodities. Europe has traditionally been a consumer and processor of basic commodities and raw materials, such as food wool and minerals. It has and still does manage its import controls to reflect these interests. Raw materials are imported with low tariffs, but processed products manufactured from those raw materials face higher tariffs, to protect the European processing industries. High environmental standards on processed products serve the same purpose.

As a major exporter of raw materials Australia has traditionally found itself at odds with European trade policy. This has been a constant factor in Australian trade policy since the late sixties when Britain closed access to Australian commodity exports when it joined the EEC. Australia's trade interests have been common with other countries who were also denied access to the EU. Most exporters of commodities are developing countries. This has always separated Australia (a commodity producer) on trade issues from most OECD countries (commodity processors). When it comes to trade, Australia has never found the OECD, an organization dominated by Europeans, a comfortable place.

³ President Zedillo of Mexico, speaking at the world Economic forum in Davos, in February 2000, said, *"in every case where a poor nation has significantly overcome its poverty, this has been achieved while engaging in production for export markets, and opening itself to the influx of foreign goods, investment and technology; that is, by participating in globalisation."*

⁴ The principal argument of the Greens is that the WTO should permit use of trade restrictions to manage the environment. They may want this, but it is not supported by the international community. The UN Rio Earth Summit concluded that trade restrictions should not be used to manage the environment.

The consequence of this is that when global solutions are sought or propose to deal with global economic problems, Europeans invariably look to solutions that impose the greatest cost on those steps in global production processes outside Europe. This is one reason why tariff escalation⁵ remains as a significant issue in global trade.

Developing countries suspect that the European and American arguments to "green" the WTO are new efforts to use environmental grounds to maintain traditional protection of domestic industries. They have a case. The EU wants new trade rules to govern agriculture to recognise the "multifunctional" purposes of agriculture. They expressly include the environment with this catchall term. The effect would be to permit high protection of EU agriculture on environmental grounds.

EU negotiators successfully pressed for terms in the Cartagena Protocol to the Biodiversity Convention which create new, wider grounds to restrict imports of agricultural products. The terms of the Protocol undermine the requirement in WTO rules that such restrictions should be kept narrow, in particular with a requirement that they have to be scientifically based. EU negotiators knew what they were doing. They refused to accept a provision in the Protocol which would have guaranteed that WTO rights of parties to the Protocol would not have been undermined by the terms of the Protocol. Securing this result was also the declared purpose of leading environmental NGOs in the US.⁶

The new lobby for protection in the US

A new movement for protection has emerged in the United States. As the Green Party's Presidential candidate, Ralph Nader has articulated a strategy which has been apparent for several years. It is to harness labor and environmental interests. The basis for this strategy was laid during the anti NAFTA campaign in the US. As a traditional advocate of union interest, Ralph Nader made common cause with environmental groups. The same alliance operated at Seattle and lobbied against the granting by the Congress to China of "Normal Trade Relations".

The common economic interest in this is the protection of the US garment industry. It is the most highly protected industry in the US. This protection was threatened first by NAFTA and then the WTO. NAFTA granted freer access to the US market of garment manufacturers in Mexico where labor costs are low. The WTO agreed during the Uruguay Round to phase out the Multifibre Agreement which allowed industrialized economies to restrict textile and garment imports from developing economies. This has forced a phase out of the use of quotas by the US to protect its domestic industry. After that phase out finishes in 2004, there will be pressure for further reductions in the WTO.

⁵ Tariff escalation is the phenomenon when tariffs are low on the raw commodity, say cacao beans, then higher on products which are processed version of that product, depending on the level or processing. For example, tariffs would be higher on cocoa butter, then higher still on chocolate. The aim is to import the raw product cheaply, then protect the processing industry.

⁶ This is made clear in Lori Wallach's "Whose Trade Organization", published by Public Citizen, Ralph Nader's organization which was one of the organizers of the protests at Seattle.

There is no question that the WTO is the number one threat to the US garment industry in the long term.

China is the number two threat. If China is granted "Normal Trade Relations" this removes discretion from the Administration to restrict trade with China. China is the world's most competitive producer of garments. Its industry is the largest single threat to the US garment industry.

The politics of American protest and pressure at Seattle were driven by Labor issues not environmental issues. The best organized marches were those by unionized labor. The "New Republic" ran a story after Seattle that Robert Milliken, a US textile billionaire and traditional supporter of right wing Republican causes, had funded Ralph Nader and the protests at Seattle. This was notable because historically Milliken was known to fund anti-labor activities. President Clinton astounded delegates by threatening to use trade sanctions if necessary to enforce core labor standards. It may be that a strategy of political theatre in the White House to secure organized union support for Al Gore's Democratic Party nomination may have got out of control and sabotaged Seattle.⁷

Environmentalists in the US have also worked to forge anti-trade and environmental interests in the food area. This is the result of longstanding collaboration between anti-free trade groups and green groups. There are substantial interests in the US Administration who resist efforts to use environmental politics to protect economic interests, for example in the powerful US Department of Agriculture, but under the Clinton Democrat Administration, the predominant influence on policy of environmental groups was demonstrated more than once.

The threat to the WTO

The WTO is now under pressure. It is said with unwarranted casualness that the WTO has failed to adjust to new circumstances, that it must adjust to survive, that there is an emerging global consensus that it must adjust to a new trilogy of interests - to provide for recognition of labor rights, controls on environmental grounds and to give 'civil society' a greater say.

This is not a global view. This is the view in Europe and North America. This debate is not occurring in Asia, Africa or Latin America to any significant degree. Developing countries by and large do not agree that the new "trilogy" interests need to be satisfied.

This analyst argues that the developing country view of the world is closer to the reality. It is part of the strategy of green groups in Europe and North America to argue that unless the WTO adjusts, it will lose authority and be irrevocably damaged. Since no environmental group has indicated that it gives any value to the economic welfare

⁷ Trade officials in developing countries believe President Clinton's strategy was to sabotage Seattle. It is unlikely that Clinton wanted a failure at Seattle. However, there was every reason for him to try to play politics with the meeting. This is a matter for the historians to answer, and they will.

benefits which the WTO system creates, any argument from that quarter that something needs to be done to maintain institution's authority is hollow.

The actions of the European Commission and US Administrations also need careful interpretation. They do not necessarily mean what they say about change to the WTO. It is a standard technique for governments to address pressure for change in international organizations by mounting a case for change in full knowledge that it will not be accepted, comfortable with the anticipation that they will be able to report to constituents that they tried to secure change, but others objected. Both the US and the EU employ such tactics on environmental, labor and civil society issues. Their rhetoric invariably goes beyond the actual proposals for change which are usually very modest.

The real threat to the WTO is, that claims by green groups that there is a serious problem with the WTO will be taken as a fact when it is not and members of the WTO will feel the need to address issues when the case to address them is not substantial.

The re-orientation in Australian policy and opinion

Ever since Britain joined the EEC in 1964, Australians understood that European trade policies damaged Australian national interests. It became critical in the decade from the mid-seventies when, with the incentive of unlimited subsidies to farmers, Europe switched from being the world's biggest importer of food to becoming the world's biggest exporter. Trade relations with Europe plummeted. When the US started matching the EEC's export subsidies on grains, Australian trade relations with the US also soured.

During the eighties, Australians understood the importance to Australia of the lowering of trade barriers on a global scale. Agriculture was the leading issue during the Uruguay Round. The issue dominated the visit to Australia by President George Bush in the early nineties. Until the mid-nineties, the importance to Australia of global trade liberalization was regularly emphasized. Australians knew Australia was unfairly treated in world trade and that this imposed an economic cost on Australians.

In this context, it was not unusual for Australia to find itself holding positions on trade and commodity issues which were common with developing countries and out of step with OECD countries. When it came to agricultural trade where Australia found the three largest OECD economies (the EU, Japan and the US) holding completely opposed positions, it was not at all unusual for Australia to adhere fiercely to positions which reflected and defended the national economic interest.

In recent years, Government in Canberra has come not to exhibit the same commitment to defence of closely related trade and commodity issues if they are represented in a environment-related light. This has been illustrated in attitudes toward international environmental treaties.⁸

⁸ The relevant treaties are the Basle Convention Banning Transboundary movement of hazardous waste which has stopped spot trade in metal scrap, the Kyoto Convention on greenhouse to restrict carbon

Australia ratified the Basle Convention to restrict the transboundary dumping of hazardous wastes. In doing so Australia breached several hitherto golden policy principles. It enacted extra-territorial extension of Australian law and it accepted obligations which breached basic WTO obligations. Officials subsequently admitted to a failure in domestic co-ordination. This did not stop officials assenting to the Cartagena Protocol which, like Basle, purports to be an environmental treaty, but in fact is a treaty for controlling trade. It is based on Basle and creates significant powers to control trade by importers which have serious consequences for Australian trade.⁹

The Kyoto Protocol to the Framework Convention on Climate Change is another indicator that commodity interests are no longer regarded as the primary interest in determining policy. Australia is the world's largest exporter of coal and is one of the world's cheapest producers of energy because of the vast national coal resources. The proposals in the Protocol to abate emissions of carbon dioxide hit Australia harder than any other country. While Australia secured important qualifications to reflect its particular interests when the Protocol was negotiated, the Government behaved since as if that was defeat, not a success. The trend since has been to be defensive about Australia's position and to prepare the way for changes in domestic policy to increase power costs in order to comply with the obligations in the Protocol. The Protocol is unlikely to be ever implemented.¹⁰ Yet the thrust of policy has not been to defend the economic interest, but rather to compromise it to align with environmental policies in Europe and North America.

It is clear today that the basic interest in policy on issues in this field is not to give primacy to the national economic interest, but rather to work to harmonize environmental policies with those of the EU and/or the US. This represents a significant departure from long-standing policy on trade and commodity issues. What explains this change?

Two reasons are put forward: first, an apparent desire among policy makers and thinkers to align environmental policy with European and North American policy; and second, lack of advocacy by the government of the importance to Australia of trade liberalization. The latter facilitates the former, so it will be addressed first.

The Government has not adopted a forthcoming attitude to trade liberalization in its international trade and industry policy. It is not possible to push aggressively for liberalization without demonstrating preparedness to remove domestic trade barriers. The rhetoric of free trade and the importance of it to Australia rarely informs trade or economic policy statements by Government leaders.¹¹ Important domestic policy

emissions and the Cartagena Protocol to the Biodiversity Convention which will restrict trade in certain genetically modified food products.

⁹ At the time of preparation of this paper, the Australian Government had not taken a decision to sign or ratify the Protocol, although Australia concurred without reservation in the text when it was negotiated.

¹⁰ See A Oxley "The Kyoto Chimera", paper presented at the Lavoisier Group conference 2000, (www.tradestategies.com.au)

¹¹ One has to presume this is a conscious decision, presumably driven by polling which warns politicians to eschew the language of economic reform.

decisions signaled a step back from trade liberalization. The programs to reduce protection on the automotive and clothing and textile sector were "paused". The procedures governing anti-dumping hearings were amended to facilitate more protectionist outcomes. The Government has been unwilling to lay down commitments on how Australia will meet the APEC targets of zero trade barriers liberalization by 2010, thereby abrogating leadership on trade liberalization in APEC. The strategy towards the next trade round in the WTO also reflects this stepping away from the politics of trade liberalization. The Government's strategy was to approach it as a 'market access' round. Its objectives for the Round were accordingly more modest than they could have been.¹².

There is silence about the importance of trade liberalization and how Australia can benefit from the multilateral trading system in Government policy and statements. In this silence the arguments of others that globalization has gone too far and runs contrary to Australia's interests acquire currency because they are left uncontested.

With no articulation of the economic interest, the case to align environmental policies with those articulated in Europe and North America becomes stronger by default. This does not entirely let Australian environmental policy officials off the hook, particularly when it comes to trade and environment issues. They have invariably argued the case for accession to international environmental agreements without any evidence of regard for Australia's national economic interest or regard for whether or not the environmental management regimes proposed in these conventions mandate effective environment policy. In the way in which officials in Canberra bind themselves only to thinking about their own narrow policy responsibility, it is not surprising that they should be disinclined to take Australia's international trade interests into account when advising on environmental policy. It is cause for dismay however that they show little disposition to develop or advocate sound environmental policies. The first inclination towards any major environmental policy which emerges from Europe or North America, no matter how ill informed or unrelated to Australia's national circumstances it may be, is to advance or defend it in Australia, not to assess it for its relevance to Australia's interests or circumstances.

The result is that for the first time in over thirty years the premises in public debate in Australia about Australia's basic international economic interests are those of other countries not Australia's. Cultural cringe has returned.

www.tradestrategies.com.au
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¹² The opening targets for trade liberalization in agriculture as promoted in the Cairns Group were more limited than those put on the table in the Uruguay Round. Canberra certainly had constraints in managing the diversity of opinion among members of the Cairns Group. But this should not be permitted to explain the overall approach. In the absence of domestic policies to further open markets, it is difficult to insist that others do so. The WTO also achieves its goals through a rules-based system. The rules need improving in some important areas. Australia did not propose improvements in the rules in the GATS (services) agreement or in the antidumping agreement (Abuse of anti-dumping rules is the fastest growing area of abuse of rule in trade to secure protective effect).