

Chapter 2

The Trade Debate

2.1 In order to fully understand the current trade debate, a brief summary of the history of trade liberalisation and the creation of the World Trade Organisation (WTO) is in order.¹

2.2 Following this discussion - and in the context of both the General Agreement on Trade in Services (GATS) and the Australia-US Free Trade Agreement (US FTA)—the Committee also addresses the trade debate in relation to economic development and poverty reduction agendas and the arguments surrounding the relative merits of multilateral trade agreements versus bilateral trade agreements.

From Bretton Woods to the World Trade Organisation

2.3 In July 1944, delegates from 45 nations gathered at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire. The delegates met to discuss the postwar recovery of Europe as well as a number of monetary issues, such as unstable exchange rates and protectionist trade policies.

2.4 During the 1930s, many of the world's major economies had unstable currency exchange rates. As well, many nations pursued protectionist trade policies. In the early 1940s, the United States and Great Britain developed proposals for the creation of new international financial institutions that would stabilise exchange rates and boost international trade. There was also a recognised need to organise a recovery of Europe in the hopes of avoiding the problems that arose after the First World War.

2.5 The delegates at the 1944 Conference reached what is known as the Bretton Woods Agreement to establish a postwar international monetary system of convertible currencies, fixed exchange rates and free trade. To facilitate these objectives, the agreement created two international institutions: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank). The intention was to provide economic aid for reconstruction of postwar Europe. An initial loan of \$250 million to France in 1947 was the World Bank's first act.

2.6 Bretton Woods also envisaged the creation of an International Trade Organisation but this was unable to be realised in its initial form as the United States Congress would not endorse it. Instead, it was created later, in 1947, in the form of the General Agreement on Tariffs and Trade (GATT), which was signed by the US and

1 For this purpose, the Committee has largely drawn from the information contained on the WTO website (www.wto.org). The WTO's official title is World Trade Organization, however, we have used the Australian spelling of 'organisation' throughout this report.

23 other countries including Australia. To a large extent the GATT managed to fill the gap created by the still-born International Trade Organisation and it emerged as the world's *de facto* trade organisation. The GATT was later replaced by the World Trade Organisation.²

2.7 The WTO was established in 1995 and built upon the organisational structure that existed under GATT auspices as of the early 1990s. After its creation in 1947, the GATT progressively developed into a system of great complexity. Its reach expanded steadily in response to developments in the world economy and the interests of its signatories.

2.8 Initially limited largely to a tariff agreement, the GATT increasingly came to incorporate negotiated disciplines on non-tariff trade policies, which increased in relative importance as average tariff levels fell. Its success was reflected in a steady expansion in the number of Members, known as contracting parties, because as Members, countries agree to abide by the principles governing the Organisation. During the Uruguay round of trade negotiations (1986-94), some 25 countries joined, bringing the total to 128 in early 1995.

2.9 The WTO is now responsible for administering multilateral trade agreements negotiated by its Members, such as:

- The General Agreement on Tariffs and Trade (GATT);
- The General Agreement on Trade in Services (GATS); and
- The Agreement on Trade-Related Intellectual Property Rights (TRIPs).

2.10 With the 1994 agreement to establish the WTO, the institution was formally transformed into an international organisation of equal standing with the International Monetary Fund (IMF) and the World Bank (as originally intended by the 1944 Bretton Woods conference).

2.11 The WTO itself does not prescribe substantive rules regarding government policies. It is simply a formal institutional structure under whose auspices Members negotiate and implement trade agreements. The rules are contained in the treaties it oversees.

2.12 The basic underlying philosophy of the WTO is that open markets, non-discrimination, and global competition in international trade are conducive to the national welfare of all countries. Indeed, the WTO website states that the WTO's overriding objective is to help trade flow smoothly, freely, fairly and predictably. It does this by:

- administering trade agreements;

2 http://canadianeconomy.gc.ca/english/economy/1944Bretton_woods.html Canadian Government website.

- acting as a forum for trade negotiations;
- settling trade disputes;
- reviewing national trade policies;
- assisting developing countries in trade policy issues, through technical assistance and training programmes; and
- cooperating with other international organizations.

2.13 The multilateral trading system overseen by the WTO operates on a number of principles.

1. Most-favoured nation (MFN): treating other countries equally. Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members (some exceptions are allowed). In general, MFN means that every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners—whether rich or poor, weak or strong.
2. National treatment: Treating foreigners and locals equally. Imported and locally-produced goods should be treated equally—at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents.
3. Freer trade: gradually, through negotiation. Lowering trade barriers is one of the most obvious means of encouraging trade. The barriers concerned include customs duties (or tariffs) and measures such as import bans or quotas that restrict quantities selectively. From time to time other issues such as red tape and exchange rate policies have also been discussed.
4. Predictability: through binding agreements and transparency. With stability and predictability, investment is encouraged, jobs are created and consumers can fully enjoy the benefits of competition - choice and lower prices. The multilateral trading system is an attempt by governments to make the business environment stable and predictable.
5. Promoting fair competition: The rules on non-discrimination—MFN and national treatment—are designed to secure fair conditions of trade. So too are those on dumping (exporting at below cost to gain market share) and subsidies. The issues are complex, and the rules try to establish what is fair or unfair, and how governments can respond, in particular by charging additional import duties calculated to compensate for damage caused by any unfair practices of a trading partner.
6. Encouraging development and economic reform: The WTO system contributes to development. Over three quarters of WTO members are

developing countries and countries in transition to market economies. They need flexibility in the time they take to implement the system's agreements.

Trade for development and poverty reduction

2.14 Trade has long been advocated as a catalyst for economic growth and development, including a more recent focus on its ability to assist in poverty reduction. In fact, the opening line of the Doha Ministerial Declaration adopted on 14 November 2001 states that '[t]he multilateral trading system embodied in the World Trade Organisation has contributed significantly to economic growth, development and employment throughout the past fifty years.' This Declaration forms the basis of what is now known as the Doha Development Agenda.

2.15 The Declaration also states that '[i]nternational trade can play a major role in the promotion of economic development and the alleviation of poverty. We recognise the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates.' In this context, members of the WTO in the Doha negotiations consider enhanced market access, balanced rules and well targeted, sustainably financed technical assistance and capacity-building programs have important roles to play.

2.16 The other institutions born of the Bretton Woods Agreement—the World Bank and the International Monetary Fund—also aim to promote an international trading system that is conducive to economic development.

2.17 It is no coincidence that the Doha Agenda is so closely linked to development. During the 1990s, a number of development goals were set out by international conferences and summits which were later brought together as the International Development Goals. In September 2000, the member states of the United Nations unanimously adopted the Millennium Declaration. Following consultations among international agencies, including the World Bank, the IMF, the OECD, and the specialised agencies of the United Nations, the General Assembly recognised the International Development Goals (to become known as the Millennium Development Goals) as part of the road map for implementing the Millennium Declaration.³ The eight Millennium Development Goals are:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health

3 For more detailed information, see the World Bank Group website:
http://www.developmentgoals.org/About_the_goals.htm

6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development.

2.18 Australia's foreign affairs and trade policy White Paper, *Advancing the National Interest* was released by the Minister for Foreign Affairs on 12 February 2003. Chapter Four of the White Paper outlines Australia's desire to build prosperity through market liberalisation. The White Paper states that Australia shares many of the interests of developing countries, particularly the desire for improved market access in agriculture and the concern that new rules not be disguised protection.⁴

2.19 As well as the White Paper, DFAT has published additional material highlighting the beneficial effect of trade on development and poverty reduction. DFAT states that a study of 73 developing countries, including China, India, Brazil, Mexico, Malaysia and the Philippines, found that those countries increasing their openness to trade have grown on average faster than those that did not, and faster than most rich countries. In addition, between 1993 and 1998, the number of people living in absolute poverty in developing countries that opened themselves to trade declined by 14 per cent. By contrast, in developing countries that did not open themselves to trade, poverty rose by 4 per cent between 1993 and 1998.⁵

2.20 The Committee notes that these sorts of claims have themselves come under challenge from well-respected economists. For example, Nobel laureate Joseph Stiglitz—an advocate of trade liberalisation, but critic of its unbalanced implementation—has said of a liberalising/privatising Latin America that: 'Little if any progress has been made in reducing inequality... and the percentages, let alone numbers, in poverty actually increased'.⁶

2.21 The DFAT publication also states that the Australian Government understands that the pace of change is a challenge for many developing countries. For this reason, the Australian Government's overseas aid program is concerned with helping developing countries to develop their economies and build stronger institutions in order to manage the economic and social impact of globalisation. This involves preferential access to the Australian market for developing and less developed countries, and funding for education and infrastructure projects so countries can identify economic opportunities and participate more effectively in international trade and investment organisations.

4 Department of Foreign Affairs and Trade, *Advancing the National Interest*, p. 55.

5 Department of Foreign Affairs and Trade, *Trade, Development and Poverty Reduction* (http://www.dfat.gov.au/trade/fs_tap_reduction.html). See also, Department of Foreign Affairs and Trade, *Advancing the National Interest*, p. 27.

6 Stiglitz, J, *Development Policies in a World of Globalisation* Paper presented at the fiftieth anniversary of the Brazilian Economic and Social Development Bank, Rio de Janeiro, (12 September, 2003), p. 1.

2.22 In addition, Australia has multi-year trade-related aid commitments totalling over \$200 million. In 2002–03 approximately \$28 million is to be spent helping poor countries to improve their trade policy skills, enhance tariff, taxation, customs and quarantine regimes, and strengthen trade and tourism promotion. Some examples of these programs include:⁷

- Training trade negotiators from Africa and the Asia Pacific;
- Assisting the Indonesian Government to improve its ability to manage its trade policy;
- Assisting Papua New Guinea to manage its ports and customs;
- Funding a program to help smaller developing countries—particularly small island states—to participate in the Doha negotiations, by funding an office in Geneva to give countries without representation in Geneva, access to up to date information on the negotiations;
- Contributing to the WTO Global Trust Fund—set up to ensure that developing country members of the WTO can take full advantage of the opportunities offered by the Doha negotiations; and
- Improving South East Asian countries’ capacity to cope with the institutional and regulatory requirements of the global trading system through a \$3 million Regional WTO Capacity Building Project.

2.23 Joseph Stiglitz, cited earlier, was formerly Senior Vice-President and Chief Economist of the World Bank. He considers the gap between the developed and the less developed countries to be growing and that the international community is doing too little to narrow that gap. Stiglitz suggests that as developing countries take steps to open their economies and expand their exports, they are increasingly confronted with significant trade barriers or face protected or restricted markets in their areas of natural comparative advantage.⁸

2.24 Whilst Stiglitz has no doubt that trade liberalisation will be of benefit to developing countries and the world more generally, he does suggest that trade liberalisation must conform to a balanced agenda, and observe processes and outcomes that take into account the concerns of the developing world. Indeed, in more recent articles Stiglitz has delivered stinging critiques of what he calls ‘the Washington consensus policies’ of liberalisation, privatisation and stabilisation as these policies are thrust upon developing countries by advanced nations.⁹

7 Department of Foreign Affairs and Trade, *Trade, Development and Poverty Reduction* (http://www.dfat.gov.au/trade/fs_tap_reduction.html)

8 Stiglitz, J *Two Principles for the Next Round, Or, How to Bring Developing Countries in from the Cold*, 21 September 1999. (www.worldbank.org/knowledge/chiefecon/articles/geneva.htm)

9 Stiglitz, J *Development Policies in a World of Globalisation*. Paper presented on the occasion of the 50th anniversary of the Brazilian Economic and Social Development Bank, Rio de Janeiro, September 2002.

2.25 Some economists have concluded that there are no examples of countries that have achieved strong growth rates of outputs and exports following wholesale liberalisation policies'.¹⁰ Further:

This holds not only in recent times, but even in the distant past when the currently rich countries were themselves climbing the ladder of success. For they themselves relied heavily on trade protection and subsidies, ignored patent laws and intellectual property rights, and generally championed free trade only when it was to their economic advantage. Indeed, the rich countries do not follow many of these policies even today.¹¹

2.26 The IMF itself conceded in a report of 2002 that 'contrary to the rosy predictions of its theoretical models, a systematic examination [of] the empirical evidence leads to the 'sobering' conclusion that 'there is no proof in the data that financial globalisation has benefited growth' in developing countries'.¹² More recently, an IMF study dated March 17, 2003 and titled *Effects of Financial Globalisation on Developing Countries: Some Empirical Evidence*, has gone even further. It recognises that 'an objective reading of the vast research effort to date suggests that there is no strong, robust and uniform support for the (neo-liberal) theoretical argument that financial globalisation per se delivers a higher rate of economic growth'.¹³

2.27 The Committee notes that these remarks focus on financial issues, rather than trade in goods and services, but they prompt a pause for reflection. It is certainly the case that investment issues are a matter of considerable contention in the Doha Round.

2.28 What is true is that the world's more developed countries—the US, EU and Japan, heavily protect their agricultural sectors and, in the case of the US, their textile

10 Manuel R. Agosin and Diana Tussie, 'Trade and Growth: New Dilemmas in Trade Policy—An Overview', ch. 1 in *Trade and Growth: New Dilemmas in Trade Policy*, St. Martin's Press, 1993, and Dani Rodrik, *The Global Governance of Trade: As if Trade Really Mattered*, United Nations Development Program, 2001, cited in *Globalisation and the Myth of Free Trade*, paper for the Conference on Globalisation and the Myth of Free Trade, New School University, New York, April 2003.

11 Manuel R. Agosin and Diana Tussie, 'Trade and Growth: New Dilemmas in Trade Policy—An Overview', ch. 1 in *Trade and Growth: New Dilemmas in Trade Policy*, St. Martin's Press, 1993, and Dani Rodrik, *The Global Governance of Trade: As if Trade Really Mattered*, United Nations Development Program, 2001, Anwar Shaikh, *Globalisation and the Myth of Free Trade*, paper for the Conference on Globalisation and the Myth of Free Trade, New School University, New York, April 2003.

12 International Monetary Fund, *Effects of Financial Globalisation on Developing Countries: Some Empirical Evidence*, Eswar Prasad, Kenneth Rogoff, Shan-Jin Wei, and M. Ayhan Kose, March 2002, cited in Anwar Shaikh, *Globalisation and the Myth of Free Trade*, paper for the Conference on Globalisation and the Myth of Free Trade, New School University, New York, April 2003.

13 Report available at <http://www.imf.org/external/np/res/docs/2003/031703.pdf>

sector. These are sectors where developing countries typically have a competitive advantage. High levels of protection and subsidies mean that developing countries cannot sell their goods to developed countries but, if the former are made to open their economies, they end up importing more goods from developed countries.

2.29 Developing countries have for some time been proclaiming their disadvantage in the face of what they regard as trade policies and arrangements devised to favour the globalised aspirations of the advanced economies. The following accounts illustrate the kinds of disadvantages and difficulties encountered by developing countries seeking to function within the global trading environment.

The linking of [non-tariff issues, competition policy etc.] to trade clearly work against developing countries that are trying to integrate into the world economy. They will continually find market access into several developed countries more restrictive as non tariff barriers are put up. Thus there is every reason for Malaysia and other developing countries to be suspicious of the motives for linking extraneous issues to trade.¹⁴

The waste of money is grotesque. Last year the West paid out \$US318 billion—five times more than it spent on foreign aid—to subsidise and protect its farmers, mostly against farmers in developing countries. In Japan, Korea, Switzerland and Norway, 60 to 70 per cent of farmers' income came from subsidies and protection. The European Union pays \$US2 a day in subsidies to every cow, yet most people in the world live on less than that. The United States pays its 25,000 cotton farmers \$US3.9 billion a year, three times as much as US aid to the 500 million people of Africa.¹⁵

In the United States, the case for infant industry protection was made in 1791, in the famous report by Hamilton to the Congress. Hamilton argued that 'since international trade is not free, Europe is more advanced in manufacturing and its industries enjoy government aids'.. then if the United States followed free trade, it would suffer from 'unequal exchange' because competition with established manufacturers of other nations on equal terms is impracticable; and that 'it is for the United States to consider by what means they can render themselves least dependent on the combinations, right or wrong, of foreign policy'. Interestingly, many developing countries make the same point today. But then they are labelled as going against the powerful and benign forces of globalisation and market reforms which, in the unforeseen long term, are assumed to benefit the people—however hard and tough, or even painful, the immediate adjustments may be.¹⁶

2.30 Some evidence received by the Committee suggested that the pursuit of trade liberalisation is at the expense of developing countries and disadvantaged peoples and

14 Paper presented by Mr M. Suppermaniam, Deputy Secretary General (Trade), Malaysian Ministry of International Trade and Industry Langkawi, 12–14 November, 1999.

15 Colebatch, T, 'Let's trade a biased system for a more balanced set of rules' *The Age*, 9 September 2003.

16 Available at <http://www.sunsonline.org/trade/process/followup/1999/01270299.htm>

little room is made to accommodate the needs of developing countries. For example, ATTAC Australia informed the Committee that a large group of developing countries requested some very basic rules of procedure before and during WTO negotiations. These included consistent procedure for decision making; that drafts should be based on consensus; that there be enough time to consider any changes; and that the secretariat and meeting chairpersons should remain impartial to the various positions. ATTAC stated that these requests were rejected by a group of developed countries, led by Australia, citing a preference for flexibility.¹⁷

2.31 The Committee regards this evidence as illustrative of the obvious disadvantage that developing countries face in multilateral trade negotiations.¹⁸ On the face of it, the Committee does not consider these requests to be unreasonable. In fact, Australia's apparent stance in relation to these requests appears to be inconsistent with a number of Australia's trade related aid commitments listed above. The Committee strongly suggests that in future negotiations Australia should be both supportive and accommodating of similar requests.

Recommendation 1

2.32 The Committee recommends that the government have more regard to the negotiating needs of, and the capacity and resource constraints on, developing countries that participate in the WTO processes. Given that the WTO is a body that operates by consensus, Members from developing countries in particular need sufficient time and resources to develop appropriate responses to complex trade issues.

GATS and the development agenda

2.33 DFAT advised the Committee that the GATS can be described as a 'development friendly' agreement that takes into consideration the needs and concerns of developing countries.¹⁹ DFAT considers this interpretation to stem in large part from the Uruguay Round negotiations, during which it was made clear that services industries in developing countries remained underdeveloped and that special consideration would have to be given to promote the development of services industries in these countries. For example, Article XIX.2 of the GATS provides that there should be greater flexibility for individual developing country Members to open fewer sectors, liberalise fewer types of transactions, and to extend market access progressively in line with their development situation, which may include the

17 *Committee Hansard*, 23 July 2003, p. 334 (ATTAC). See also, p. 336 (AID/WATCH); and *Tabled document 4*, 23 July 2003 (ATTAC)

18 For example, 19 of the 42 African WTO members have no trade representative at WTO headquarters in Geneva. In contrast, the average number of trade officials from OECD countries is just under seven. See, Joseph E. Stiglitz, *Two Principles for the Next Round, Or, How to Bring Developing Countries in from the Cold*, 21 September 1999 www.worldbank.org/knowledge/chiefecon/articles/geneva.htm

19 *Submission 54*, p. 26 (DFAT)

attachment of certain conditions to access commitments in accordance with the objectives referred to in Article IV (Increasing Participation of Developing Countries).

2.34 The Australian Fair Trade and Investment Network (AFTINET) acknowledges that DFAT formulates and disseminates its development policies as a function of AusAID's work. But AFTINET considered it unfortunate, particularly in contrast to countries such as Canada and New Zealand, that DFAT's discussion paper on the GATS revealed that AusAID's development goals do not play any role in Australia's position on the GATS negotiations:

The discussion paper does not address the issue of how Australia's approach to the GATS negotiations fits within Australia's foreign policy objectives regarding developing countries, which is particularly striking given the effect that Australia's requests might have on these countries. Other countries have incorporated development policies into their approach to the GATS negotiations. Canada and New Zealand, for example, both cite particular measures they have adopted within their GATS strategy to take account of the impact of GATS on least developed countries.²⁰

2.35 The Committee notes that the need to take into account the concerns of developing countries is reflected in the Guidelines and Procedures for the Negotiations on Trade in Services, which was adopted by the Council of Trade in Services on 28 March 2001. The Council asserted that the process of liberalisation would take place with due regard for national policy objectives, the level of development and the size of economies of individual members, both overall and in individual sectors. Proper consideration would be given to the needs of small and medium-sized enterprises (SME) service suppliers, especially those of developing countries.²¹

2.36 DFAT explained that the 'Doha Development Agenda' reflects the widely-accepted need to move developing countries' concerns toward the centre of the WTO's work and in an important development, service negotiators agreed to modalities for autonomous liberalisation. This enables WTO members, particularly developing countries, to claim negotiating credit for any reform (autonomous liberalisation) which countries have undertaken. Such credit would be claimed on a bilateral basis.

2.37 DFAT identified a number of common elements as being relevant to enhancing the participation of service suppliers from developing countries in global trade in services. While DFAT considers some of these elements act as market access barriers, others are conditions affecting the performance capacity of suppliers from developing countries. These include:

- Access to technology

20 *Submission 42*, pp. 14–15 (AFTINET)

21 *Submission 54*, p. 26 (DFAT)

- Sound and reliable banking and financial structure, with adequate prudential measures
- Capacity of SMEs to compete internationally
- Access to information networks
- Regional integration
- Transparent legal and institutional frameworks.

2.38 The United Nations Committee on Trade and Development (UNCTAD) has estimated that the importance of services in the economies of developing countries has steadily increased to over 50 per cent of GNP with services providing more than half of the employment opportunities in developing countries. The Committee notes however, that in general, the majority of these jobs are in the more labour-intensive but lower-skilled tourism sector rather than the more highly-skilled services sectors such as financial, legal, accounting and similar services.

2.39 A submission from International Trade Strategies Pty Ltd stated that developing countries are likely to benefit significantly from further liberalisation of trade in services. International Trade Strategies suggested that liberalisation provides opportunity for officials to advance commitments to permit competition from foreign providers of services which advance reform of the domestic economy and that in effect, GATS offers developing countries the *only* enforceable global framework for growing their services trade opportunities in the future.²²

2.40 DFAT also highlighted a number of areas of importance to developing countries in the context of GATS negotiations that would be of benefit to developing countries, or where developing countries could best utilise their comparative advantage. These included the temporary movement of people who provide services (or ‘movement of natural persons’ known as Mode 4); lowering price and improving quality and creating the optimal conditions to attract foreign direct investment.²³

2.41 Unfortunately, when questioned on ways in which developing countries could utilise the full potential of their comparative advantage by lowering prices and improving quality of services, DFAT was only able to point to the apparent benefits of liberalisation of services trade and implementation of effective regulatory measures rather than practical ways in which developing countries could achieve this. In relation to how Australia was assisting developing countries in this regard, DFAT made the following comments:

Australia has a relatively open and liberal services sector offering trade opportunities for developed and developing countries alike. Australia has also made commitments in a number of service sectors which are of interest to niche suppliers of services based in developing countries. Australia also has a relatively liberal Mode 4 entry regime which assists the temporary entry of experts and

22 *Submission 30*, p. 3 (International Trade Strategies Pty Ltd)

23 *Submission 54*, pp. 27–29 (DFAT)

specialists based in developing countries. In addition Australia is engaged in outreach activities that aim to enhance technical analysis and capacity building capabilities in developing countries.²⁴

2.42 Specifically in relation to the Mode 4 entry regime, DFAT stated that ‘a large proportion of services export income in developing countries is derived from Mode 4’. That is, six of the top ten countries receiving workers’ remittances were developing countries. DFAT also highlighted the issue that developing countries’ comparative advantage is in the movement of low and semi-skilled labour services but that the chief industry sectors of many developed countries are capital-intensive industries which results in the entry of low-skilled workers being restricted.

2.43 Australia’s initial offer in services is aimed at supporting the overall trade objective of liberalising trade in areas of importance to Australia and the Committee acknowledges that, under the GATS, offers lodged by Members are applicable to services and service suppliers of all Members, both developed and developing. However, DFAT highlighted some very real benefits to developing countries through the movement of low-skilled workers and whilst Australia’s existing commitments under Mode 4 are very facilitative of genuine business movements, they do not address this issue.

2.44 The Committee has visited this issue in some detail in a recent inquiry into Australia’s relations with Papua New Guinea and the Island States of the South-west Pacific. That inquiry resulted in the Committee recommending a pilot program to allow low-skilled workers from throughout Papua New Guinea and the Pacific to access the Australian job market, predominately in the areas of fruit-picking and the like. The Committee notes that the Government has not yet responded to the recommendations of that inquiry and awaits that response.

2.45 AFTINET also drew attention to the objective of promoting prosperity in developing countries outlined in *Advancing the National Interest*. However, AFTINET suggested that, if this is a genuine goal, it should be reflected in the approach taken towards trade relations with developing countries and should include recognition of the importance of developing countries maintaining a capacity to regulate and discriminate against foreign investors and corporations, so as to have some control over the development process.²⁵

2.46 In addition, ATTAC Australia believes that the GATS will have a considerable impact on the fragile economies of the developing world and that therefore Australia should take a more responsible position by considering the effects of any negotiating position on developing countries as opposed to simply being concerned about what Australia can get out of the GATS.²⁶

24 *Answers to Questions on notice*, Question 25, p. 2 (DFAT)

25 *Submission 42*, p. 15 (AFTINET)

26 *Submission 56*, p. 4 (ATTAC Australia)

2.47 A similar position was put to the Committee by AID/WATCH, suggesting that there is widespread community concern over the impact of this economic agenda on the Third World. AID/WATCH considered the benefits to developing countries to be unclear.²⁷ During GATS negotiations in Geneva and elsewhere, developing countries have been expressing their frustration at what they see as the imbalance and lack of fairness in the offers being made by developed countries and also at the apparent reluctance to provide market opportunities to developing countries in those sectors where they may have an advantage.

Developing countries ... have voiced their unhappiness with the lack so far of agricultural liberalisation commitments by developed countries, particularly the Europeans. They do not see why they should make significant commitments in services if they are not to benefit from market access in agriculture.... Indonesia, Malaysia, Thailand and the Philippines, have been frustrated at the negative response, particularly from developed countries, to their request for establishing an emergency safeguard mechanism for services. ... Several developing countries have also been pushing for meaningful improvement for increased market access in movement of natural persons (Mode 4). They point to the imbalance of developed countries piling on the pressure on developing countries to commit to give commercial presence to their firms in a wide range of sectors (under Mode 3 of GATS) whilst they (the developed countries) themselves are not making any commitments on liberalising Mode 4.²⁸

2.48 Detailed consideration of domestic concerns raised by the GATS is given in Chapters 4 and 5.

Multilateral v bilateral trade agreements

2.49 A prominent concern raised by witnesses and submitters was that Australia's negotiation of a free trade agreement with the United States of America would be detrimental to current multilateral trade and service negotiations by undermining the principles of the multilateral trading system through the WTO. For example, AFTINET suggested that the negotiation of a bilateral trade agreement with the US 'carries the danger of undermining Australia's policy support for, and credibility in, multilateral negotiations'.²⁹ Professor Ross Garnaut also stated that the negotiation of an FTA with the US at this time 'would accelerate the weakening of the multilateral trading system that is currently in process by adding to momentum for development of discriminatory free trade areas and by diverting focus from multilateral trade negotiations'.³⁰

27 *Committee Hansard*, 23 July 2003, p. 339 (AID/WATCH)

28 See TWN Report by Martin Khor, Geneva 12 July 2003. Available at http://www.tebtebba.org/tebtebba_files/finance/slowly.rtf

29 *Submission 42*, p. 48 (AFTINET)

30 *Committee Hansard*, 22 July 2003, p. 197 (Garnaut)

2.50 The debate is explored in more detail in Chapter 6 dealing with the Australia-US Free Trade Agreement. What follows is a brief overview of the argument.

2.51 The suggestion that negotiation of an FTA with the US will undermine the multilateral trading system or signal a lessening of Australia's commitment to the WTO and multilateral liberalisation was strongly contested by DFAT. DFAT believed such arguments appeared to ignore, among other things, the following:

FTAs are sanctioned by the WTO ... if they are comprehensive and trade creating...;

FTAs can help the WTO system to generate momentum by liberalising difficult sectors among a few countries...³¹

2.52 These arguments were also supported by the Cattle Council of Australia who stated that 'a successful AUS-US FTA could benefit both Australian and US beef producers as it would increase the pressure on countries such as the EU, Korea and Japan in the next Round of WTO multilateral negotiations'.³²

2.53 The Committee notes the arguments made by DFAT above, but notes also that some of these points have been contested, and some clarification may be required. For example, FTAs are sanctioned by the WTO only if they are compliant with the WTO constitution. A better example of FTAs generating momentum for the multilateral round may be the North American Free Trade Agreement and the Uruguay Round.

2.54 The Government is pursuing a combined multilateral, regional and bilateral approach to trade policy suggesting that Australia may be 'left behind' if it does not negotiate free trade agreements in tandem with multilateral negotiations:

Many other countries are in the process of negotiating or seeking free trade agreements with our trading partners. This could pose risks to our interests if our competitors were to gain preferential access to our export markets. It is possible, too, that investment might be diverted from Australia to other countries that have negotiated preferential access with each other. Inaction as others negotiate free trade agreements could risk an erosion of our competitive position in those markets.³³

2.55 DFAT considers free trade agreements that are comprehensive in scope and coverage can complement and provide momentum to Australia's wider multilateral

31 *Submission 54*, pp. 39-40 (DFAT)

32 *Submission 63*, p. 3 (Cattle Council of Australia). See also, *Submission 47*, pp. 26-27 (AUSTA Business Group)

33 Department of Foreign Affairs and Trade, *Advancing the National Interest*, p. 59

trade objectives. DFAT stated that one of the best ways of ensuring this occurs is for agreements to meet the criteria in the WTO agreements.³⁴

2.56 However, Professor Garnaut expressed concern that pursuit of free trade agreements is discriminatory (in economic terms) and contrary to WTO criteria and the fundamental ‘most favoured nation’ principle. Professor Garnaut believed such moves add to the weakening of the multilateral system, and was concerned that exceptions to the ‘most favoured nation’ principle were becoming ‘the game that is getting all the energy’.

The most favoured nation principle became the first article of the GATT. A shared understanding that trade relations should be on a most favoured nation basis is really the first vehicle for carrying forward this idea. Institutionally, the idea is embodied in Article I of the World Trade Organisation, the most favoured nation clause, which is based on the old GATT. Of course the GATT included Article XXIV, which was to provide an exception to the most favoured nation clause. That exception was introduced to keep open the possibility of developments in Europe that were desirable for political reasons—the developments that became the European Union. But the founding fathers—I think they were all fathers, not mothers—of the GATT and the WTO never envisaged that Article XXIV would become the main game.³⁵

2.57 The Committee also notes arguments that suggest that, with the more recent focus on regional and bilateral trade agreements, there is a risk that Australia and the world may see the emergence of the same global tensions that applied prior to the Bretton Woods Agreement. Such a situation may see deepening political divisions and Australia being excluded from certain trade blocs with enormous economic consequences.

[If] trade discrimination becomes the norm and if one decides who to favour and who to exclude, partly on political grounds—countries that seem to be political friends at a point in time—there is a danger that political divisions will be entrenched and deepened. There is a danger that at this time, when more than ever we need trust and cooperation across the civilisations of the world to defeat the scourges of terrorism, we will entrench some important divisions in the international community.

In our region there is a danger that we will end up over time—not tomorrow but over time—with a division down the Pacific, with us being part of a block with the United States and most of East Asia having discriminatory arrangements amongst themselves that leave us out. That would obviously have horrific economic consequences for us. The economic consequences would be much smaller for the United States and Europe, but they would be huge for us, because they are our main export markets. In addition, there is a

34 See DFAT website: www.dfat.gov.au/trade/negotiations/australias_approach.html. See also, Department of Foreign Affairs and Trade, *Advancing the National Interest*, pp. 58–63

35 *Committee Hansard*, 22 July 2003, p. 198 (Garnaut). See also, *Submission 70* (Capling)

danger that that would make cooperation more difficult on the many things that we have to cooperate on at this difficult time in the world.³⁶

2.58 The Committee acknowledges that it is inherent in bilateral and regional free trade agreements that the MFN principle is not followed. However, the Committee notes that APEC, a regional economic forum that Australia helped establish, is based on the principle of ‘open regionalism’. In other words, what progress APEC makes in opening up markets in member economies is then automatically shared with the world on an MFN basis. This approach strengthens the multilateral system and prevents the Asia Pacific region from becoming an exclusive economic club. APEC’s goals, to which Australia is committed, are for free trade within the region by 2010 for developed countries and 202 for developing countries. The Committee further considers the impact of bilateral agreements on the multilateral trading system and other elements of the US FTA in Chapter 6.

36 *Committee Hansard*, 22 July 2003, p. 202 (Garnaut)