
4 Selected developments in international trade policy

Although not a major trading nation in global terms, Australia is an active participant in trade negotiations and trade policy reform. In recent years, as well as engaging in the current, ongoing round of trade negotiations in the World Trade Organisation, it has been pursuing preferential trade agreements with a number of countries. Notwithstanding its involvement in these multilateral and bilateral negotiations, Australia's traditional approach to obtaining the benefits that trade liberalisation can bring has been to unilaterally reduce its own import tariffs and other trade restricting measures. Continuing with this approach, in 2004-05 tariffs were reduced in the TCF and automotive industries (chapter 3). New evidence suggests that, like Australia, several other countries have made most of their tariff reductions unilaterally in recent years. This chapter reports on these developments.

4.1 Multilateral trade negotiations

For more than 50 years, the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), have provided a stable, rules-based system for the conduct of international trade, providing significant benefits to members. In particular, the operation of the non-discriminatory 'most-favoured-nation' (MFN) principle,¹ together with the 'consensus-based' approach to negotiating WTO/GATT agreements, have limited the extent to which large trading nations can exploit their economic power and, in turn, have provided opportunities and legal protections for small- and medium-sized trading nations, such as Australia. Successive rounds of multilateral trade negotiations have facilitated substantial reductions in many trade barriers, and underpinned the strong expansion of international trade (see box 4.1) and growth in living standards (PC 2000c).

¹ The MFN principle bars a member country from discriminating between 'like' products of other members, or from favouring non-WTO members over members. Critically, however, WTO rules provide exceptions within the ambit of customs unions and preferential trade agreements, which have increased rapidly in number in recent years (see section 4.2), as well as in the case of 'special and differential treatment' provisions for developing countries.

The last major multilateral trade agreement (the Uruguay Round) was finalised in 1994. While it facilitated significant reductions in barriers to trade in many areas, it did not significantly liberalise agriculture and services. These are in some respects the more ‘sensitive’ areas, in which finding consensus on reform has proven difficult. In addition, the growth in WTO membership (which now stands at 149 members), and attempts to broaden negotiations to include matters such as barriers to investment and competition policy which can also be ‘sensitive’, have made achieving agreement on further liberalisation more complex.

Box 4.1 Has the GATT/WTO increased trade?

The post-WWII period has seen a considerable expansion in the level of trade between nations. Most commentators have posited that this was largely due to multilateral trade agreements finalised under the GATT and the WTO. Challenging this consensus, Rose (2004) presented evidence that the expansion of international trade has been experienced just as forcefully in member and non-member countries alike.

Of course, membership of the WTO (or, previously, the GATT) is not a reason in itself to expect an expansion in trade; rather, it is the trade liberalisation that follows from membership that should expand trade. In this regard, two recent papers show that Rose's results are reversed when account is taken of members who have not been required to liberalise their regimes to the same extent as other members and non-member participants, who, without being formal members, have adopted GATT and WTO rules.

Subramanian and Wei (2003) argue that because the GATT and the WTO have given developing countries ‘special and differential’ treatment (allowing them to reduce their barriers by less), these countries are largely members in name only. When they are excluded, trade between developed countries is shown to have increased, as a result of GATT/WTO agreements, by 44 per cent. Summarising their results Subramanian and Wei (2003, p. 20) state that:

... the GATT/WTO has done a splendid job of promoting trade wherever it was designed to do so and correspondingly failed to promote trade where the design of rules militated against it.

In addition, they found that some developing countries that have joined the WTO since the Uruguay Round (such as China) have also experienced significant increases in trade, due to the greater obligations that have been placed on acceding countries in recent years.

Tomz et. al. (2005) argue that the *effective* membership of the GATT should be expanded to include colonies which, without actually being formal members, had the results of GATT rounds adopted for them by their colonial parents. When factoring in these additional countries, world trade is found to have increased significantly — by between 25 and 120 per cent — as a result of GATT participation. In addition, Tomz et. al. extend Subramanian and Wei's work to show that when non-member participants are included, multilateral reform has also expanded trade of those developing countries that have adopted the more rigorous liberalisation obligations of their parent countries.

Source: Rose (2004), Subramanian and Wei (2003) and Tomz et. al. (2005).

The early Doha negotiations

Despite these complexities, in 2001 a new round of WTO negotiations was launched at the Fourth WTO Ministerial Conference, held in Doha, Qatar. WTO members agreed to negotiations covering a broad range of issues, including agriculture, services, intellectual property rights and potentially the so-called ‘Singapore’ issues (investment rules, competition policy, transparency in government procurement and trade facilitation).

However, negotiations on the Doha Round stalled in 2003 when, at the Fifth WTO Ministerial Conference in Cancún, members were unable to agree on the scope and pace of reform (particularly in relation to agriculture and the Singapore issues). Underlying this disagreement was a concern among developing countries that their interests were not being given sufficient weight.

Following the Cancún conference, a number of intergovernmental forums, involving both developed and developing countries, called on WTO members to restart serious negotiations on the Doha agenda. For example, at the APEC summit in Thailand in October 2003, APEC ministers strongly reaffirmed their commitment to ‘press for an ambitious and balanced outcome to the Doha Development Agenda, reiterating that the development dimension is at its core’ (ICTSD 2003). There was also renewed political engagement by the major players (including the European Union and the United States) in an effort to advance the negotiations.

Consequently, a ‘framework package’ was agreed to by the WTO General Council in Geneva in July 2004. This package removed some of the stumbling blocks of Cancún by reaching a consensus to remove all agricultural export subsidies (although not a date for their removal) and limiting the scope of the negotiations (the Singapore issues being reduced to just one: trade facilitation).

(The Commission commented in more detail on these developments in previous editions of *Trade & Assistance Review* (PC 2001, 2002b, 2003b, 2004b).)

Recent developments

Subsequent progress has been limited. All deadlines for the formulation of a tentative (‘first approximations’) framework for an agreement have been missed, and much time has been spent resolving technical issues such as a methodology to convert tariffs applied on a quantity basis (such as a per tonne or per litre) into an *ad valorem* equivalent.

Notwithstanding this slower than anticipated resolution of framework issues, the Sixth WTO Ministerial Conference, held in Hong Kong in December 2005, agreed to an end date for export subsidies, agreed on the broad structure that reductions in trade barriers for agriculture and industrial goods would take, and endorsed some measures to help less developed countries (see box 4.2). Pascal Lamy, the Director-General of the WTO, summed up the extent of the progress by suggesting that the Doha round was now 60 per cent complete, compared with 55 per cent at the start of the conference (WTO 2005b).

Box 4.2 **Key outcomes from Hong Kong**

Agriculture

- Members agreed to remove all *export subsidies* by 2013. Disciplines on commercially-displacing food aid, subsidised export credits and trade distorting elements of state trading enterprises are also to be imposed.
- Three bands have been created for the reduction of *domestic support*, with larger reductions required by those countries in the higher bands. The European Union (which grants the highest level of support) is in the top band, Japan and the United States in the middle, and all other countries are in the bottom band. There has been some convergence in views on the extent of the cuts that should occur in each of these bands.
- Tariffs will be divided into four bands. There has been no agreement on the thresholds for these bands, nor on how large the tariff reductions will be in each band.

Industrial tariffs

Members have agreed to adopt a tariff reduction formula that will reduce the highest tariffs by larger amounts, the intention being to reduce or eliminate tariff peaks and tariff escalation. However, there has been no agreement on the coefficients to be inserted in the formula which will determine how high the tariff cuts will be. Some developing countries have claimed that developed country demands on industrial goods are not commensurate with their offers in agriculture. Accordingly, members have agreed that liberalisation in agriculture and industrial goods will be achieved in a 'balanced and proportionate manner'.

Services

There has been agreement to move beyond the initial bilateral request-offer process, to conduct sectoral negotiations 'plurilaterally' between multiple countries. Although there has been little agreement on specific issues in services, it is envisaged that the new procedure will accelerate progress and members have agreed that a services deal should be concluded by 31 October 2006.

Source: WTO (2005c)

The Hong Kong outcome has left much work to do before a final agreement is reached. For example, the World Bank (2005b) has estimated that only 2 per cent of the overall gains available from agriculture liberalisation would be achieved from the removal of export subsidies. The Hong Kong agreement left unresolved a number of the more difficult agricultural reform issues, particularly in relation to tariffs. More broadly, although WTO members have largely agreed on *how* barriers for agricultural (and industrial) goods are to be reduced, they have made little progress on *how much*. These details are intended to be settled by the end of April 2006.

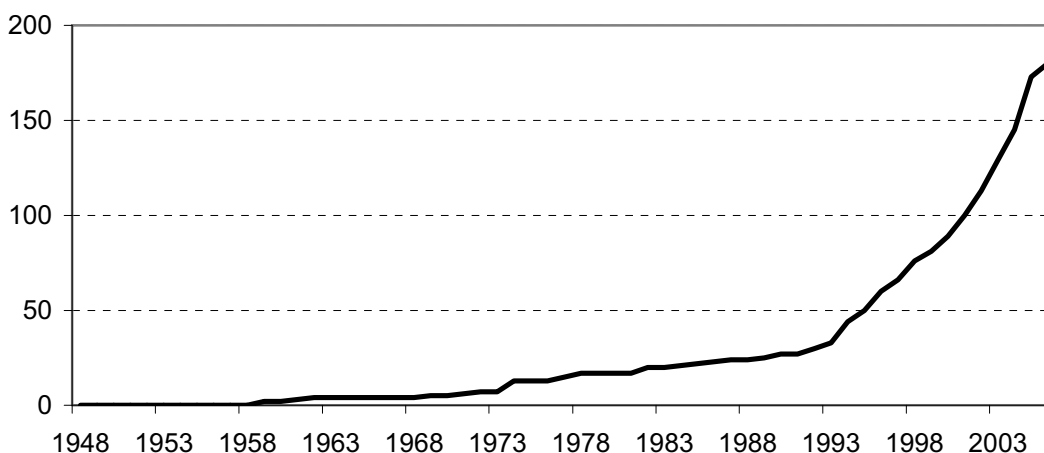
Such an apparent lack of progress is not an unusual occurrence for multilateral trade negotiations. For strategic reasons, many countries seek to conceal some of the ‘concessions’ they are willing to make until the final stages of negotiations. Consequently, it is difficult to judge the real gap that exists between different members’ negotiating positions. Further, there are indications that delays in agricultural negotiations are preventing countries from engaging in negotiations in other areas. In this regard, a breakthrough in agriculture may ‘unlock’ other parts of the negotiations.

There appears to be a widespread feeling among some members that negotiations ideally should be completed in 2006, as the United States President’s ‘fast track’ negotiating authority (allowing the President to submit trade agreements to Congress for a ‘yes’ or ‘no’ vote, without risk of amendment) expires in mid-2007. At a minimum, a failure to reach agreement within the next year risks putting multilateral trade negotiations on hold for some time, simultaneously delaying the substantial benefits that could flow from multilateral trade reform and giving further impetus to the negotiation of ‘second-best’ preferential trade agreements.

4.2 Preferential trade agreements

The number of preferential trade agreements (PTAs) is increasing rapidly. More than half of all PTAs notified to the GATT/WTO since 1948 have been finalised in the last decade (see figure 4.1). 186 PTAs had been notified as of November 2005, and the WTO (2005d) estimates that this could rise to 300 if all the PTAs currently planned or in negotiation are concluded.

Figure 4.1 PTAs by date of entry into force



Data source: WTO (2005d)

Australia has followed the global trend. Prior to 2003, Australia was party to three agreements, with Papua New Guinea, South Pacific countries and New Zealand, of which only the latter was a reciprocal agreement.² Since then, Australia has signed bilateral agreements with Singapore, Thailand and the United States. (The Commission reported on these latter agreements in its past two *Trade & Assistance Reviews* (PC 2003b and 2004b).) Negotiations are underway on possible bilateral agreements with China, Malaysia and the United Arab Emirates (UAE) and a regional agreement encompassing the Association of South East Asian Nations (ASEAN) and New Zealand. The Department of Foreign Affairs and Trade is also undertaking a feasibility study on a PTA with Japan, and is seeking comment on the possibility of a PTA with Mexico. If Australia concludes PTAs with all of these countries, it is estimated that 43 per cent of Australia's total two-way trade in goods and services (combined exports and imports) will be covered by preferential arrangements (Mugliston 2006).

An eminent panel selected by the WTO recently commented on some of the costs of such trends, arguing that the proliferation of PTAs constitutes a threat to the current multilateral system (see box 4.3). The Commission also discussed some problematic aspects of PTAs in *Trade & Assistance Review 2003-04* (PC 2004b). The Australian Government's position is that PTAs that are comprehensive in scope and coverage can complement and provide momentum to Australia's wider multilateral trade

² The PTAs are the Papua New Guinea-Australia Trade and Commercial Relations Agreement, the South Pacific Regional Trade and Economic Cooperation Agreement and the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA or 'CER'). However, only the CER is a reciprocal agreement; the others are essentially mechanisms by which Australia unilaterally grants preferential entry to its market for aid reasons.

objectives in the WTO, and that any progress in regional trade liberalisation should be multilateralised in due course through WTO negotiations. (DFAT 2006)

In addition to these possible new PTAs, some changes have recently been announced to the Rules of Origin (RoO) governing the Closer Economic Relations agreement between Australia and New Zealand. Progress on those PTAs under development, and the Government's recent announcement on RoO, are outlined below.

Box 4.3 PTAs and the WTO

Early in 2005, an eminent panel of trade policy experts (chaired by Peter Sutherland, former Director-General of the WTO, and including Jagdish Bhagwati) delivered a report on the challenges facing the WTO.

The Panel recognised that the establishment of PTAs can deliver benefits. For example, PTAs can provide an avenue for smaller groups of nations to develop trade relationships that are broader and deeper than is achievable at the multilateral level (and thus help 'test' agreements on new areas, such as investment, before they are adopted more broadly). Further, the negotiation of PTAs may help overcome some entrenched protectionist interests within a country and help developing countries adjust gradually to the opening of their markets.

Nevertheless, the Panel concluded that on balance the proliferation of PTAs could undermine the WTO system, stating that "MFN is no longer the rule; it is almost the exception" (p. 19). For example, the EU now applies its 'MFN' tariffs to only nine nations (including Australia).

The Panel noted that PTAs can introduce a number of other costs, including:

- diverting trade from the most efficient countries;
- entrenching support for less-ambitious multilateral reform from the beneficiaries of PTA discrimination;
- the diversion of skilled and experienced negotiating resources; and
- the emergence of 'non-trade' objectives in some PTAs (such as intellectual property rights and labour and environmental regulations) — creating the threat that these objectives may enter through a 'back-door' into multilateral agreements.

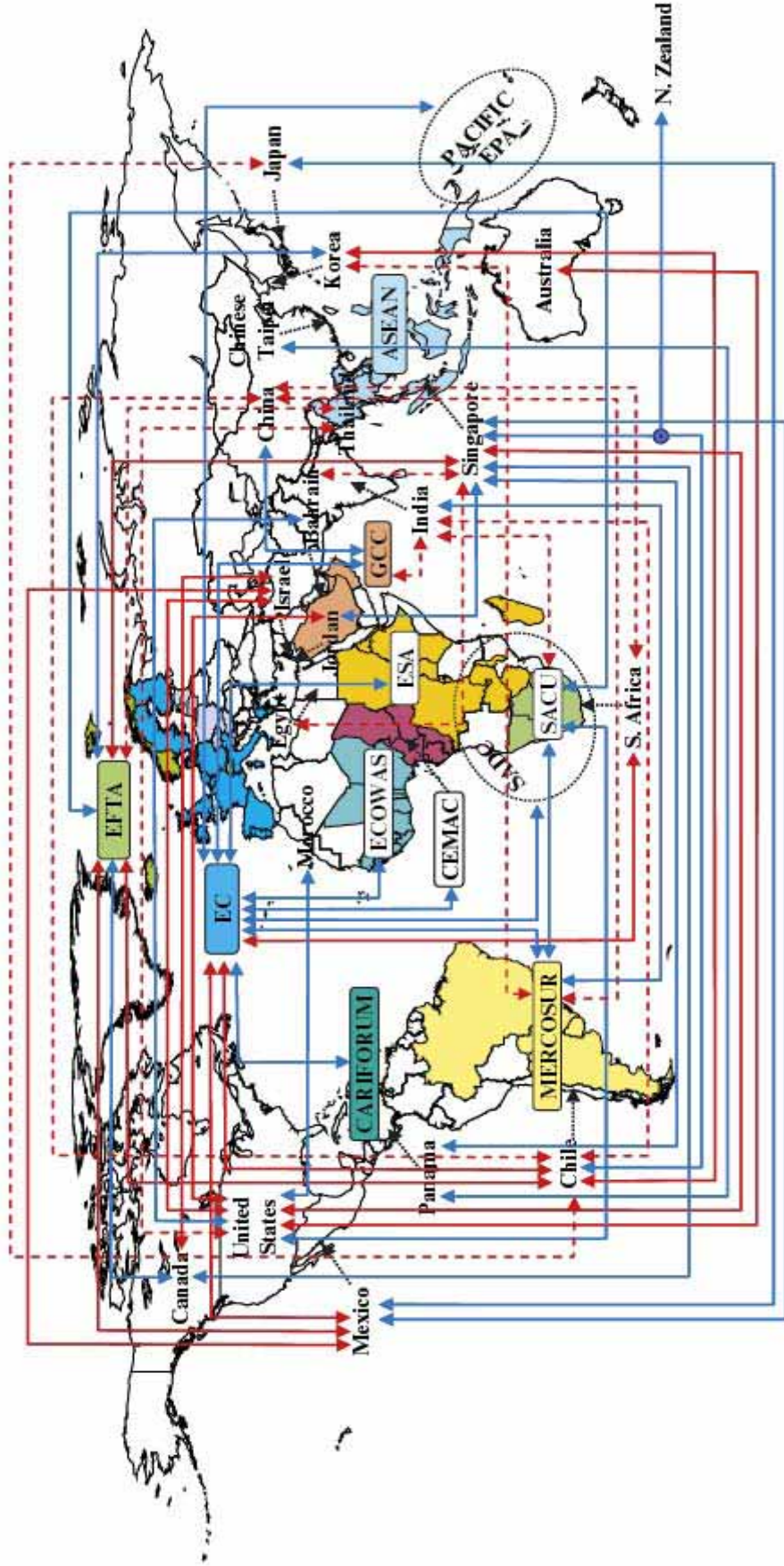
According to the Panel, the most significant cost is that PTAs complicate world product markets and add substantial costs to businesses trying to negotiate the 'spaghetti bowl' (figure 4.2) of different preferential rates and 'rules of origin'. (It noted that these problems particularly affect smaller companies and firms in developing countries.)

The Panel noted that harmonising the details of PTAs could minimise some of these transaction costs. However, given the number of PTAs now in force, each with its own set of rules of origin and negotiated arrangements, it concluded that this goal was nigh unachievable. Instead, it urged members to unilaterally reduce their MFN tariffs, which would automatically reduce trade diversion effects and the importance of rules of origin.

Source: WTO (2004b).

Figure 4.2 The 'spaghetti bowl'

Notified, under negotiation and proposed PTAs ^a



^a As of February 2005. Dotted lines represent proposed agreements. Source: Crawford and Fiorentino (2005)

China

A joint feasibility study on a PTA between Australia and China was released in April 2005. Modelling undertaken as part of the study suggested that a PTA could increase Australia's GDP by as much as \$25 billion over the period 2006-2015. (Some issues surrounding such estimates are outlined in box 4.4). The study also suggested that structural adjustment resulting from an agreement would be minimal relative to adjustment that is already occurring in response to globalisation and other reforms (DFAT and Ministry of Commerce (China) 2005).

Upon release of the study, the Prime Minister of Australia and the Premier of China agreed to enter into negotiations on a PTA. A number of meetings among Chinese and Australian trade officials have since been held — three covering procedural matters and information exchanges about each party's trade and investment regimes, and a fourth in late February/early March 2006 involving more substantive negotiations.

As part of the agreement to enter into negotiations on a PTA, Australia has recognised China as a 'market economy' for anti-dumping purposes.³

Nonetheless, China was until recently a largely state-run economy and remnants from this history pose challenges for the development of a PTA. For instance, there are concerns about Chinese non-tariff measures involving transparency of administration, appeal processes and dispute resolution, standards and technical regulations and intellectual property rights (DFAT and Ministry of Commerce (China) 2005). Lowering such barriers is likely to bring the greatest potential gains for both economies, since tariffs on trade between the two countries are already relatively low. However, realising fundamental institutional change may prove difficult within a bilateral trade agreement.

³ Previously, China was recognised as an 'economy in transition'. This allowed the Minister responsible for customs to determine, where the Chinese Government controls or substantially controls the domestic price of a good, the 'normal' value of that good (for antidumping purposes). Following this change, estimates of the normal value of a good must now be guided by domestic or third-country pricing and only when this information is not available is the Minister permitted to make a determination on a good's normal value.

Box 4.4 **Modelling and PTAs**

Most of the recent PTAs that Australia has agreed to or is negotiating have been preceded by the estimation of their potential economic gains, generally through the use of 'ex ante' 'general equilibrium' modelling. Each of these studies has forecast that the PTA in question would deliver net benefits. However, some of the results have been contested (see, for example, Dee 2004).

While such modelling can provide insights (for example, comparing impacts of different liberalisation scenarios and estimating outcomes for sectors and regions), it also has limitations. Such modelling provides estimates or projections of the *potential* benefits of liberalising trade, rather than measure the *actual* outcomes of PTAs. Accordingly, key limitations follow from assumptions that need to be made about the degree of liberalisation and the response of industry and governmental actors. For example, such modelling cannot readily measure 'dynamic' productivity benefits (such as providing greater scope for the transfer of technology and ideas) and does not easily capture the effects of removing non-tariff barriers. In addition, the gains from PTAs can be overstated to the extent that modelling:

- assumes a greater degree of liberalisation than actually occurs — studies sometimes model the effects of removing all barriers to trade between members, whereas in practice most PTAs rarely provide for full liberalisation;
- does not consider the administrative costs of obtaining preference, under often complicated Rules of Origin (RoO);
- fails to take account of the trade-restricting effects of RoO and the adverse impact of these requirements on firm's costs of production; and
- fails to account for 'safeguard' actions that may temporarily remove preferences if import volumes rise above an agreed amount. (Australia has recently taken such action against Thai canned tuna products under the Thailand-Australian Free Trade Agreement, see McGauran 2005c.)

In a recent study by Commission staff (Adams et al 2003), empirical (econometric) techniques, rather than modelling, were used to examine the actual effects on trade and investment resulting from 18 existing PTAs. The study found that 12 of the PTAs had diverted more trade from non-members than they created among members. The authors accorded this potentially adverse result to the Rules of Origin (and other measures) that are needed to underpin and enforce preferential arrangements. In contrast, the study found that the removal of non-tariff barriers in most agreements resulted in net investment creation rather than diversion. The authors postulated that this was due to the non-preferential nature of many non-tariff barrier 'concessions' (such as commitments to more rigorously enforce intellectual property rights).

Malaysia

A scoping study, evaluating the effects of a PTA between Australia and Malaysia, was released in April 2005 (DFAT 2005a). This study concluded that Australia's GDP could increase by as much as \$1.9 billion as a result of a trade agreement between Australia and Malaysia. The study noted that although most merchandise trade between Australia and Malaysia already occurs at zero or low tariffs, there are some exceptions (including a 50 per cent tariff on cars in Malaysia) and also some barriers to services (such as the Malaysian Public Service not recognising all Australian degrees).

Following the scoping study's release, the Prime Ministers of Australia and Malaysia agreed to begin negotiations on a PTA. Negotiations on the structure and content of an agreement have begun, taking place within four working groups covering goods, services, investment and other issues.

These negotiations are occurring in parallel to negotiations on a preferential agreement involving Australia, New Zealand and ASEAN (of which Malaysia is a member). In commenting on these parallel processes, the Australian scoping study (DFAT 2005a) stated that:

It is likely that a bilateral agreement would achieve earlier and deeper liberalisation and comprehensively address worthwhile opportunities specific to the bilateral relationship.
(p. ix)

Progress on the Australia-Malaysia PTA has been impeded, however, by Malaysia's commitment to negotiating eight other PTAs. Accordingly, the previously announced mid-2006 conclusion date for the negotiations will now not be met.

ASEAN-New Zealand

On 30 November 2004, the Joint Declaration of ASEAN Leaders announced that negotiations are to commence in early 2005 on an Australia-ASEAN-New Zealand Free Trade Area. The negotiations are to be guided by agreed principles, including that:

- the agreement should be comprehensive in scope, covering trade in goods, services and investment; and
- an objective would be a move towards deeper economic integration between ASEAN and Australia and New Zealand through progressive elimination of all forms of barriers to trade in goods, services and investment; and through trade, investment and economic cooperation measures (DFAT 2004).

Currently the negotiations are only at a preliminary stage, with countries exchanging information on their trade regimes and the formation of working groups covering goods, services, investment, legal issues, rules of origin and economic cooperation. Another negotiating round is scheduled to be held in New Zealand from 4-7 April 2006. The negotiations are expected to be completed within two years and implemented within 10 years.

United Arab Emirates

On 15 March 2005, the Australian Minister for Trade and the UAE Minister for Economy and Planning agreed to launch negotiations on a PTA. The UAE is Australia's second largest market in the Middle East. Commenting on the prospects for the agreement, the Department of Foreign Affairs and Trade (2005c) stated:

Both economies also have relatively open markets, however there are opportunities to further liberalise investment and expand tourism and education exchanges, all of which are expected to grow under a more open regulatory environment.

To advance the negotiations, three working groups have been formed on goods, services and legal issues. These working groups met in December 2005. An internal qualitative study of trade and investment opportunities and bilateral impediments has also been completed (DFAT 2005c).

Japan

In April 2005, a study on the benefits and costs of trade liberalisation between Australia and Japan was released (DFAT 2005g). This study concluded that Australia's GDP could be increased by as much as \$39 billion over the next 20 years as a result of bilateral liberalisation of Australia-Japan trade.

Following these results, Australia and Japan have agreed to commence a feasibility study to examine policy issues more closely, and particularly the pros and cons of entering into a PTA. The feasibility study is expected to be completed within two years. In announcing this study, DFAT (2005g) recognised that Japan's sensitivity to the liberalisation of agricultural products remains a difficult issue.

New Zealand

In 1983, Australia signed the Australian New Zealand Closer Economic Relations Trade Agreement (ANZCERTA, commonly known as CER). Like most PTAs, the CER has specific rules of origin (RoO) which determine whether goods are

classified as being manufactured in either Australia or New Zealand and thus qualifying for concessional entry.⁴

In 2004, the Commission was asked to report on the suitability of these RoO. It found that, although there were some problems, generally the CER RoO were not overly restrictive (compared to RoO in other agreements) and, in any case, were becoming of less importance as both Australia and New Zealand continue to lower their trade barriers. Accordingly, the Commission recommended against changing the framework of CER RoO (including to the ‘Change of Tariff Classification’ (CTC) method). It found that the most prudent approach would be to make minor changes to reduce operational problems, and to liberalise the current rules by applying a waiver to provide duty free entry for CER goods manufactured in Australia or New Zealand which face trans-Tasman tariff differences of 5 percentage points or less (PC 2004a).

However, the Australian and New Zealand Governments have agreed to change the CER RoO to an approach which generally requires a good to satisfy a change in tariff classification during the production process in either Australia or New Zealand (Vaile and Macfarlane 2006) in order to gain duty free access to each other’s markets under CER. It was originally anticipated that the revised origin rules would be implemented by 2006. However, finalisation of the new RoO took longer than anticipated — CTC-based systems often entail technical requirements and/or ‘regional value of content’ requirements to cater for different circumstances, such as to protect ‘sensitive’ industries such as TCF. It is now intended that the new RoO will be adopted from 1 January 2007, which will coincide with the introduction of a new global harmonised tariff code by the World Customs Organization. The details of the new RoO have not yet been made publicly available.

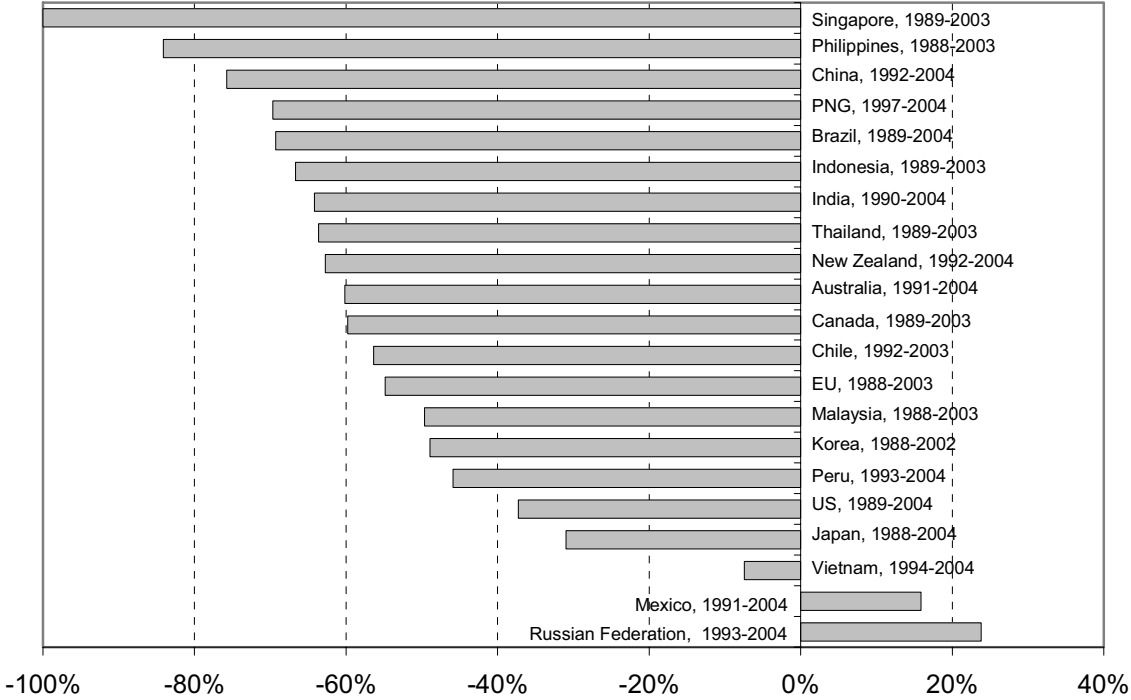
4.3 National tariff reform

While engaging in multilateral and, more recently, bilateral trade agreements, Australia has adopted a primarily unilateral approach to tariff reform, making reductions not necessitated by trade agreements. This process began with the 25 per cent ‘across-the-board’ tariff cut in 1973 and was followed by more consistent and sustained tariff reductions in the 1980s and 1990s. Tariff reductions are continuing in the relatively highly assisted PMV and TCF industries (see chapter 3).

⁴ Without rules of origin there could be an incentive to import goods from a third party country into the PTA region (through the member with the lowest tariffs) and hence take advantage of the concessions *within* the region. Circumventing higher tariffs in this way reduces the value of the preference given to some exporters. RoO are designed to limit the extent of such circumventions.

Many other countries have also significantly reduced their tariff barriers recently. For example, many countries have more than halved their MFN tariffs over the last decade (see figure 4.3). These reductions have been particularly pronounced in the APEC region. For example, Singapore, the Philippines and China have all reduced their average tariffs by over 75 per cent.⁵

Figure 4.3 Percentage changes in simple average MFN tariffs



Source: World Bank (2005c)

While simple average tariff calculations mask significant tariff peaks in certain sectors and the impact of other forms of industry assistance, the scale of average tariff reductions does indicate significant steps towards more liberal trading regimes.

Across countries, some of the recent reductions in trade barriers reflect commitments made in the Uruguay Round (and, in the case of China, its accession to the WTO).

⁵ A recent study by the CIE (2005a) showed that almost all APEC members had significantly reduced their tariffs since 1988. The average tariff barrier across APEC fell from 16 per cent in 1988 to 6 per cent in 2004. And, in the one APEC country where tariffs had increased over this period, Vietnam, reductions in non-tariff barriers, such as the intervention of state owned enterprises, were expected to offset the increased tariffs.

However, there is evidence that most have resulted from unilateral actions. In this vein, a recent study by Martin and Ng (2004) found that, since 1983, two-thirds of the reductions in tariffs undertaken by developing countries were enacted unilaterally — giving emphasis to the view that countries should, and do, reform their trade regimes primarily for domestic reasons, such as to improve the efficiency of their domestic industries and economic structures.

Balanced against this picture of substantial reductions in tariffs is the operation of other forms of protection — such as intervention through the management of exchange rates or the ownership and regulation of industry. For example, while China has reduced its average tariffs by around 75 per cent for both primary and manufactured products since 1992, its intervention in foreign exchange markets may have reduced for the time being the competitive pressures on its domestic industries. This highlights that national tariff reform is only one aspect of the overall reform agenda.