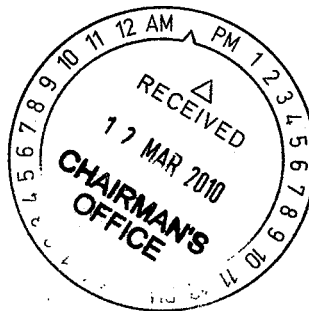


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Mr Gary Banks
Chairman,
Productivity Commission,
GPO Box 1428,
Canberra City ACT 2601



Dear Gary,

SUBMISSION TO PC INQUIRY: REVIEW OF BILATERAL AND REGIONAL TRADE AGREEMENTS

I would like to make a submission to the above inquiry and submit three published documents, also available electronically, in support of this submission.

The first, *'Free' Trade Agreements: Making Them Better*, is most directly relevant to your inquiry. (It is also available at <https://rirdc.infoservices.com.au/downloads/05-035.pdf>). I won't repeat the arguments here since they are spelt out in the document itself. But some of the key points are:

- There are good (economic benefits greater than costs) and bad (the reverse) FTA's.
- Comparing trade flows before and after an FTA is formed does not signify success or failure of an FTA. A model of some sort has to be used to represent the counterfactual.
- Australia will have little influence on the formation of FTA's globally so the best stance for us is to encourage others to make FTA's better. This can be done by encouraging WTO members to follow the ten points elaborated in the document.
- There is no objective means to determine whether the proliferation of FTA's has led to the weakening of the multilateral WTO system or whether the slow demise of the WTO, with the prolonged negotiations for little result and the lack of adherence to its rules has caused the rush to form FTA's. Both could be at fault. The weakening of the WTO system with its faulty logic ("exports good, imports bad") and other inconsistencies is addressed in the second document outlined below.
- One of the single most important steps to better FTA's (and ultimately their complete multilateralisation, that is, making them redundant), is better transparency. This aspect is elaborated in the third document submitted and outlined below.

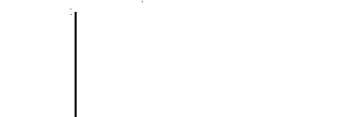
The second document is titled *Termites in the Basement; To free up trade, fix the WTO's foundations*, and it outlines the problems and slow demise of the WTO system and the commitment to free trade globally. (The document is also available at <https://rirdc.infoservices.com.au/downloads/03-092.pdf>). If an institution is failing, look to either the organisation administering the rules or the institutional arrangements themselves. Following Nobel Laureate Douglass North, the WTO is the organisation that administers the institutional agreed trade rules or the 'rules of the game'. And, as outlined in the second document, there are inconsistent and contradictory trade rules and agreements as well as a flaw in the economic logic of the negotiation process itself. Policy makers, and many economists for that matter, have gone along with this economic flaw because the negotiations made good political sense, and to a point they worked, although that is contested by others. The trouble is, after playing the political game for so long, we have mis-educated the public to the point where many now believe the false logic, which is, exports are good and imports bad. The politics have now changed. The antidote to mis-education is education and that occurs through transparency – the subject of the third document.

The third document submitted is *Policy Transparency; why does it work? who does it best?* – also available at <https://rirdc.infoservices.com.au/downloads/08-035.pdf>. In this document the authors (Hayden Fisher and I) attempt to unpick what transparency really means and what are the channels through which it works. (Incidentally, you will be pleased to see that your Productivity Commission scores most highly as a successful transparency organisation administering a good set of institutional arrangements).

The idea of transparency is not a new one; it was developed by a working group headed by Olivier Long during the Uruguay Round of negotiations. But the ideas developed by that group were never fully implemented by the WTO to the world's great cost. One of the main concepts is that 'transparency' has many elements to it as summarised in Chart 1 of the submitted document. The key point is that all elements have to work well for transparency to be really successful. In a nutshell, decisions cannot be made in the national interest if people do not know and believe what is in the national interest. That is what transparency does.

I would be happy to elaborate on any of the above points or contents in the attached three documents.

Kind regards


Andrew Stoeckel

Visiting Fellow, Centre for Applied Macroeconomic Analysis

8 March 2010

'FREE' TRADE AGREEMENTS

Making Them Better

Prepared by
John Humphreys and Andrew Stoeckel

Prepared for
**Rural Industries Research and
Development Corporation**

Termites in the Basement

**To free up trade,
fix the WTO's foundations**

Prepared by
Andrew Stoeckel
Centre for International Economics

Prepared for
Rural Industries Research
and Development Corporation

March 2004

POLICY TRANSPARENCY

Why does it work

Who does it best

Prepared for
**Rural Industries Research and
Development Corporation**

Prepared by
Andrew Stoeckel and Hayden Fisher

4 July 2008