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# Getting the most out of the WTO and the Doha Round\*

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The Productivity Commission has a much wider mandate and agenda than its predecessor bodies, but it retains a strong interest in trade policy matters, as these have a significant influence on the performance of the Australian economy and the living standards of Australians.

The effective functioning of the WTO system and the opportunities presented by the Doha Round are of particular importance at this time, when the commitment to liberal trade of some of Australia's major trading partners has been in doubt and multilateralism itself has been under challenge by the rise of bilateral trade agreements.

In my remarks this morning I would like to focus on some of the broader issues and the potential benefits for Australia in the new WTO Round of negotiations. I will not attempt to get into the *detail* of the current negotiations or institutional arrangements. This is an area in which our colleagues from DFAT have a clear comparative advantage.

This Committee has already heard a great deal in its previous inquiries about the role of the WTO and its significance for Australia.

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### *The benefits of multilateralism*

A point that deserves re-emphasising in the context of the new negotiating round is that the contribution of the GATT/WTO system has come as much from the order and stability that it brought to international trading relations — following the chaos of the 1930s — as from the reductions in trade barriers through successive negotiating rounds, important as these have been.

In particular, the 1<sup>st</sup> Article of the General Agreement — the MFN or non-discrimination clause — has played a key role in reducing trade conflict among nations, promoting efficient trade flows and reducing transaction costs.

It has been of particular value to countries like Australia that lack economic negotiating clout. Trade is important to Australia's economic prosperity. But since we account for just 1 per cent of total world trade, we have little bearing on the prosperity of most other nations. The MFN rule has nevertheless allowed us to benefit automatically from the trade deals of others (in a way that does not happen in regional or other preferential trade deals).

Australia's interests have also been well served by the upgrading of the dispute settlement mechanisms within the WTO, overcoming the previous anomaly in which offending countries could veto the outcome.

Australia has accordingly been very supportive of the multilateral trading system and has made an important contribution to framing the rules and coverage of the GATT and now WTO.

### *Australia has benefited from domestic liberalisation*

However, Australia has not been a conventional participant in multilateral negotiations. For many years our main export interest, agriculture, was essentially off limits, providing little scope for reciprocal concessions, so we were forced to think about the domestic implications of reducing our own trade barriers (and we pioneered tools of analysis to help us with that).

This turned out to be an important advantage, as we were among the first countries to act on the recognition that a country gains most of all from reducing its *own* trade barriers, regardless of what other countries do.

Australia's achievements in this respect have been substantial, with average effective manufacturing tariffs falling from 36 to 5 per cent over the past three decades. These reductions have brought their own gains in efficiency and consumer welfare, but they also created competitive pressure for the reform of other sources

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of inefficiency within the economy, including in public utilities and other economic infrastructure and in labour markets.

The upshot has been an economy characterised since the early 1990s by historically strong productivity and income growth — and an unprecedented capacity to withstand external shocks.

Moreover Australia's pursuit of the domestic gains from unilateral liberalisation has not precluded us from participating in multilateral liberalisation efforts, where we have been able to enter into agreements to 'bind' our tariffs at lower rates — such bindings being the real object of WTO reciprocity.

The biggest problem we face as we enter the 'business' part of the Doha Round is that most other countries do not approach trade negotiation in this way. They typically see the gains coming from other countries' 'concessions', with only costs from their own. The very process of reciprocal liberalisation within the WTO encourages such a view.

#### *Promoting awareness of the domestic gains*

There is a fundamental need for a more balanced and informed debate within WTO member countries about the benefits as well as costs of reducing national barriers to trade. In the absence of more information about the costs of protection to the wider community, sectional interests in those countries — whether they be American steel millers, French cheese farmers or Japanese rice growers — will continue to meet with success at the cost of their own economies as well as ours.

This is clearly a domestic issue, residing in domestic institutions and domestic politics. Even so, there may be scope for Australia and like-minded countries to exert some influence.

One avenue that Australia has already tried is to sponsor research on the costs of protection to our trading partners. An important early effort in this vein was the Red Book on the domestic costs of the CAP, produced by the Bureau of Agricultural Economics back in 1985. It had an impact, but its influence on Europeans suffered from its association with a foreign interested party (us). However, we could seek to have more such work done within international agencies (some has been done, but not enough) or sponsor collaborative work with researchers within relevant countries, akin to the Global Study overseen by the Centre for International Economics some years back. (I might note here that the Productivity Commission and its predecessors have made a contribution in this area, including co-sponsoring with the USITC a forthcoming APEC workshop on non-tariff barriers.)

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A second and more fundamental approach to improving foreign acceptance of the benefits from reduced protection is *institutional* and was put forward in a submission to this Committee by Bill Carmichael and Ron Duncan last year. It is based on Australia's own experience in reforming its Tariff Board to undertake a greater role in assessing the costs of protection and promoting public awareness of the tradeoffs in different policy choices. An attempt was made to develop a WTO accord on such domestic transparency processes during the Uruguay Round, but it got side-lined during moves to create the Trade Policy Review Mechanism. There may be scope to revive it.

### *The opportunities of Doha*

Clearly there is much at stake for Australia in the Doha Round. The agenda for the Round is broad and covers the key areas of interest to Australia. This breadth could prove very useful. In reciprocal negotiations, where countries seek to use gains in foreign access to build domestic support for liberalisation, it is important that the scope for tradeoffs be as wide as possible — including all products and sectors — and that there is also a wide coverage of countries.

### *Agriculture – maybe this time?*

Agriculture remains a priority issue for Australia, as well as for many developing countries. But it should also be a priority for the most protectionist developed countries — the EU, USA and Japan.

Such protection clearly hurts us, as it is focussed on the products in which Australian farmers are competitive on world markets — like beef, wheat, sugar and dairy. But these policies also impose major costs on the protecting countries. Commission staff have estimated that liberalisation of post-Uruguay Round agricultural trade barriers would provide a US\$50bn boost to global welfare. The bulk of these gains would accrue to North America, Europe and Japan, through a better allocation of their resources. But there would also be significant gains to Australia and New Zealand through terms of trade effects (higher export prices).

The Uruguay Round achieved little more than *tariffication* of agricultural protection — a nevertheless welcome advance in transparency (Japan's tariff on rice was set at 390 per cent!). Tangible benefits will now require reductions in those tariffs (including 'temporary' tariff quotas), as well as in production subsidies and export subsidies (the latter needing to be eliminated if rules for agricultural trade are to be brought into line with manufactures).

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If we downplay the USA's recent actions and pay more attention to its *words* (reversing the usual rule), things do look more promising this time around. The gains to Australia from implementation of the US agenda would be substantial (some back of the envelope figuring puts the global gains at roughly US\$40bn annually, 80 per cent of the total gains potentially available). However, the US offer is very firmly conditional on others coming to the party – and the EU is not emitting much enthusiasm at this stage. Moreover, the EU has sought to establish linkages with other complicated areas of the negotiations such as environmental labelling and geographical indications.

It could be that in this Development Round, the 'Big 3' might be encouraged to offer concessions if developing countries and other agricultural exporters like Australia (the Cairns Group) can exert sufficient collective pressure. Whether or not this happens, however, will inevitably still depend on the perceived *quid pro quos*.

### *Services tradeoffs*

In this respect, a desirable feature of the Doha Round is not only its breadth but also the 'single undertaking' nature of the final outcome, allowing scope for tradeoffs across sectors. For example, services is an area of particular export interest to developed countries. It is also an area of trade where developing countries have the highest barriers and could make concessions that would not only be valued by others, but would also be of considerable benefit to themselves.

Recent modelling work by Commission staff, while still 'experimental', indicates the potential for global income gains of over US\$100bn annually from the elimination of post-Uruguay Round barriers to services trade, some \$2bn of which could accrue to Australia.

That said, liberalising services can be even more politically fraught than goods trade, given the equity and other non-economic dimensions of some services and the fact that barriers to trade are often embedded in domestic regulations which restrict competition from any source. However, where increased competition is found to be appropriate domestically, treating foreign service providers equally ('national treatment') will generally bring additional benefits, provided it is in step with domestic liberalisation.

Australia's own barriers to services imports are generally relatively low, with the exceptions of maritime services and some professional services (particularly legal services). Commission research suggests that some of the highest barriers overseas are in banking and telecommunications. These are areas where Australia has very

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low barriers of its own and would seem well placed to benefit from improved access to foreign markets.

### *Developing countries should do their bit*

While barriers to trade in manufactures are generally low in developed countries, there are exceptions, such as automotive and especially textiles, clothing and footwear (TCF). Further liberalisation in OECD countries would not only bring direct benefits to Australia, but also indirect benefits from the income gains to developing countries.

Information available to the Commission's current inquiry into post-2005 automotive assistance in Australia, confirms that the highest barriers to our automotive exports remain in developing countries. For example Thailand and Indonesia have tariff rates of 80 per cent, Malaysia (the outlier) on 300 per cent!

APEC commitments for developing countries do not really 'bite' until 2020. In the meantime, the Doha Round provides an important opportunity for achieving some liberalisation in those markets.

It should be said, however, that the WTO's 'special and differential treatment' provisions for developing countries are not conducive to progress. In what has been labelled the Development Round, it is counter-productive to perpetuate the myth that allowing developing countries extra scope to maintain their own trade barriers is pro-development. A perverse outcome for developing countries is that they have also experienced 'special and differential treatment' in *developed* markets, particularly in the TCF sector. Australia needs to support their efforts in the Doha Round to remedy this discrimination.

### *Influencing the rules*

I have noted that Australia has had an important influence on the evolution of GATT/WTO rules and coverage. Indeed this influence has been disproportionate to our economic weight. We have been very well served in this by our trade officials in Canberra and Geneva.

One area in which Australia could make a further useful contribution in the Doha Round is Article 24, which is intended to constrain preferential trade arrangements, but has been quite ineffective.

The proliferation of bilateral agreements involving key trading partners, such as the USA, together with delays in the WTO, has led to a more accommodating stance on

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RTAs by Australia. In a world of trading blocs, the costs of exclusion could be substantial. However, it is also in Australia's interests to see WTO rules adopted and enforced that would prevent the formation of RTAs harmful to Australia, whether as a third party or a participant.

How best to achieve this is problematic. Stronger and clearer provisions relating to the need for elimination of barriers to 'substantially all trade' among the members of such an agreement would seem a good starting point. And, if such deals are truly to be 'building blocks' rather than 'stumbling blocks' for multilateral liberalisation, it would also be desirable to require that any such arrangements are eventually made open to other WTO members on the same terms. Given the lack of progress in this area this is probably a slim hope, but resistance to any such 'opening' provisions would be revealing about the real intent of such deals.

#### *Underpinning Doha liberalisation*

Of course the best safeguard against any harmful RTAs would be successful liberalisation within the Doha Round itself, since the potential for significant trade diversion is reduced as general trade barriers fall. As in the past, Australia needs to assess and proceed with its own reforms, where they yield domestic benefits, without being hostage to progress elsewhere. The challenge is to get other countries to do likewise.