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**The Great Australian Debate - Asia and the United States: the WTO
and the FTA**

by

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1. Some economic history of Australia and the world economy

Recently, Australian participation in regional trading agreements has been in the news. In 2003 we have signed agreements with Singapore and Thailand and we are now negotiating with the United States. The first two were accepted by the Australian public almost without comment but last is controversial.

In this environment, we need to remember that the Australian Customs Tariff has contained significant preferences for imports from particular sources for most of the 100 years since Federation. The first protective tariff was introduced in 1908, the so-called Lynne Tariff. This included a 5 per cent preference margin for goods imported from Great Britain. From then until the decision by the British Government to join the European Community in 1973, Australian trade policy was based on preferential links with Great Britain and associated countries in the British Empire and later the British Commonwealth. From the end of British preferences, our trade policy has been based on a declared preference for the multilateral route to trade liberalisation. However, this did not prevent us from exchanging preferences with New Zealand, first in the 1965 NAFTA Agreement (that is, the New Zealand Australia Free Trade Area!) and from 1983 in the Closer Economic Relations Agreement. Australia was also the first Developed Country to introduce non-reciprocal preferences for Developing Countries. We did this in 1965.

The 50 years of the GATT/WTO system of trading rules for the world economy exhibits a similarly chequered career for multilateralism. The Preamble to the GATT 1948 laid down the two objectives of the organisation: “the substantial reduction of tariffs and other barriers to trade” and “the elimination of discriminatory treatment in international commerce”. This language is repeated in the preamble to the Marrakesh Agreement. The objective relating to trade discrimination is stronger than that relating to trade barriers as the former calls for their elimination, the latter for their reduction. Under Article XXIV, RTAs were envisaged as exceptions but they have become the rule.

2. Our first preferences should be multilateralism

Our still declared preference for multilateralism is the right policy. Multilateral trade liberalisation has significant advantages over regional liberalisation.

In the first place multilateral reduction in trade barriers is non-discriminatory whereas RTAs are, by nature, discriminatory; they give imports from some sources preferential access over imports from other non-preferential sources. Trade on a Most-Favoured-Nation (MFN) basis allows importers to import goods from the cheapest source in the global economy and, in the reverse direction, MFN allows our exporters to compete on equal terms with other countries (though, not of course with domestic producers in the importing country who may receive high protection from MFN tariffs or barriers). That is, MFN trade is efficient. By contrast, discriminatory trade introduces inefficiencies. This is captured by the idea of “trade diversion” introduced by Jacob Viner in his famous 1950 book on *The Customs Union Issue*. This feature does not mean that discriminatory trade is harmful to the countries that

are members of an RTA. Much of the new trade associated with the formation of an RTA will promote more efficient production and consumption and, even when trade diversion occurs, an importing country will still gain in most instances as domestic prices to producers and consumers are more closely aligned with world prices. This gives production and consumption gains that offset the higher cost of imports.

A second advantage of multilateral trade negotiations conducted by the GAT/WTO is that they have historically covered many commodities and many areas of GATT/WTO rules, and then been applied to all of the members of the GATT/WTO. The broader scope of the negotiations allows more trade-offs and the prospect that all countries will gain. This feature may, however, be a mixed blessing in the Doha Round. One of the reasons why the negotiations stalled in Cancun is that there were just too many issues being discussed by too many members. Some trade economists are now arguing that RTAs involving a few member countries are more manageable from the point of view of negotiations. (Clearly this does not apply to negotiations like the Free Trade of the Americas Agreement which involves some 34 countries and poses the same sort of coordination difficulties as the WTO negotiations.)

3. Trends in the Asia-Pacific-US region

The Asia-Pacific area was a latecomer to the global trend since about 1985 towards the formation of new RTAs. The first RTA involving a North Asian country was the Japan-Singapore Economic Partnership Agreement that came into force in mid-2002. Since then several other RTAs involving at least one member in East Asia have been signed.

Figure 1 gives a graph of RTAs in the Asia-Pacific (=APEC region). To avoid the graph becoming too cluttered, it does not include RTAs in which one or more of the members is outside the APEC region, the so-called cross-regional agreements; for example, the Canada-Israel, US-Israel, Singapore-EFTA, Mexico-EU and Mexico-EFTA agreements. Clearly the Asia-Pacific area is following the pattern in other areas. More countries are joining RTAs.

Up to the early 1990s, RTAs were, with only a few exceptions, a set of non-intersecting areas but this is no longer true. A hub exists where one country (customs territory) is a member of two or more RTAs. Many countries are now members of more than one RTA and such hub-and-spoke arrangements are continuing to proliferate.

The Asia-Pacific area has followed this trend too. Figure 1 lists the hubs in the Asia-Pacific region and their spokes. In the Asia-Pacific area, more hubs are emerging, the average number of spokes is increasing and some of the spokes are plurilateral spokes, that is spokes in which the spoke partner is itself an RTA rather than a single country. As shown in Table 1, 10 of the 21 APEC countries are hubs and a number of other APEC countries will become hubs if current negotiations are completed.

These trends apply both the West Pacific and East Pacific sub-areas of APEC. That is, all of the major trading countries in the West Pacific and East Pacific areas are or will soon be members of two or more RTAs.

4. Policy towards RTAs in Asia and the Pacific

In the light of these trends, I have no hesitation in saying that Australia should pursue all avenues of trade liberalisation – multilateral, regional and unilateral - in order to open up the economy further. Greater openness will improve the efficiency of the Australian economy by reducing high cost imports and expanding our outputs of the goods that we can produce cheaply compared to other countries, and it will make our markets more competitive and keep us abreast of developments in world markets.

The pursuit of market opening through the regional route is not inconsistent with a preference for multilateralism. We would prefer that all of our trading partners did pursue multilateral liberalisation and did forego regional liberalisation. But they have not foregone regional liberalisation. Given this important fact of life in the global trade policy world, we must act similarly. To not do so, would risk our losing market shares in our major markets as other competitors received preferential access above us when they join RTAs with the US, Japan, ASEAN, China and other East Asian or East Pacific markets. This defensive motivation for joining new RTAs was neatly captured by the statement attributed to Professor Alan Winters:

“Regional (preferential) trading arrangements are like street gangs: you may not like them but if they are in your neighbourhood, it is safer to be in one.”

For this reason I am in favour of our negotiating with the US and signing an agreement, provided the terms are satisfactory to us.

5. US-Australia FTA- dangers in the negotiations

What kind of agreement would I like to see? Briefly, the agreement should be as comprehensive as the CER Agreement and other recent agreements signed by both countries such as the Australia-Singapore Agreement and the US-Singapore Agreement. It should cover trade in goods and services, capital and labour. It should have a minimal bureaucracy and be modern in its features. Thus, it should cover e-commerce and information technology, permit greater temporary movement of labour, prohibit anti-dumping actions, have limited safeguard actions, have liberal rules of origin, provide for investor-to-state and state-to-state dispute settlement and mutual recognition of standards where possible.

Market access for our exporters and for US exporters to Australia is the most important aspect of the agreement. In relation to trade in goods, we should aim for 100 per cent goods coverage and the elimination by the end of a transitional period of all tariffs and export subsidies. The elimination of tariff quotas, and subsidies will be more difficult. Similarly, the coverage of the provisions relating to services, would aim at the elimination of all barriers to trade in all services, by all modes, though again there may be a few exceptions on a negatives list.

One of the most difficult aspects of the agreement will be rules of origin. NAFTA rules of origin are more trade-restrictive than those of any other RTA, especially for automobiles and for clothing textiles and footwear. We should definitely not adopt

NAFTA ROOs. CER is a much better precedent in this regard, though certainly not perfect.

With regard to safeguards and anti-dumping duties, it is desirable to keep any safeguard provisions simple and not industry-specific. A prohibition on anti-dumping duties against the RTA partner, along the lines of that in the Canada-Chile Agreement, is desirable, though it would be a precedent for the US.

There are three areas of Australia policy which have been the subject of much public comment and which have something in common. These are

- Single desk marketing in the AWB
- Quarantine regulations
- FDI rules

The US is seeking “concessions” in these areas and all are of concern to some Australians. There is a prospect for our making “concessions” in these areas that will benefit Australia. Single desk marketing should be replaced by the freedom of Australian exporters of wheat and other grains to sell what they want to whom they want. Quarantine is a policy area where Australia is at the extreme in the ordering of all WTO members by the strictness of their policies. Many of our quarantine procedures and limits are quite trade-restrictive and we have been in dispute with a number of countries over them (US, EU, Philippines, Thailand, New Zealand, Canada and others). We need to refine our risk assessment procedures under the SPS agreement without giving up the protection of our fauna and flora. Our FDI rules, as operated by FIRB, are non-transparent and, indeed, it is hard to discern what principles if any underly them. Moreover, in all of these areas we will almost certainly have to make multilateral concessions in the future and, therefore, the “costs” associated with changes in a bilateral FTA merely advance these in time.

On the other hand, there are areas where we should not make concessions because it is against our national interest to do so. Here, I mention parallel imports in the intellectual property area, and the content provisions relating to TV and radio, and the Pharmaceutical Benefits Scheme.

Table 1: Hub Countries in the Asia-Pacific with their Spokes, mid-2003

<u>Actuals</u>	<u>Under Negotiation</u>
Singapore, in ASEAN with spokes to	
Japan, New Zealand, USA, Canada, Australia, EFTA States*	Mexico, Chile Pacific Three* (S+NZ + Chile)
Thailand, in ASEAN with spoke to	
Bahrain, China, Australia	
USA, in NAFTA with spokes to	
Israel, Jordan, Singapore, Chile CACM*	Australia, Morocco FTAA*, SACU*, CAFTA*
Canada, in NAFTA with spokes to	
Chile, Costa Rica, Israel, Singapore	CA-4*, EFTA*, FTAA*
Mexico, in NAFTA with spokes to	
Nicaragua, Costa Rica, Bolivia, Chile, Israel EU*, EFTA*, CACM*, Group of Three*	Singapore, Peru, Ecuador, Japan, Panama, Trinidad and Tobago, FTAA*
Chile with spokes to	
Canada, Mexico, Colombia, Venezuela Peru, Ecuador, Bolivia, USA EU*, EFTA*	Singapore FTAA*, Pacific Three*
Peru, in Andean Community with spoke to	
Chile	Mexico FTAA*
Australia, in CER with spokes to	
Singapore, Thailand	USA
New Zealand, in CER with spokes to	
Singapore	Hong Kong Pacific Three* (S+NZ + Chile)
Russia, in CIS with spokes to	
Kyrgyz Republic, Georgia	

* denotes a plurilateral spoke

Figure 1. A Hub-and-Spoke

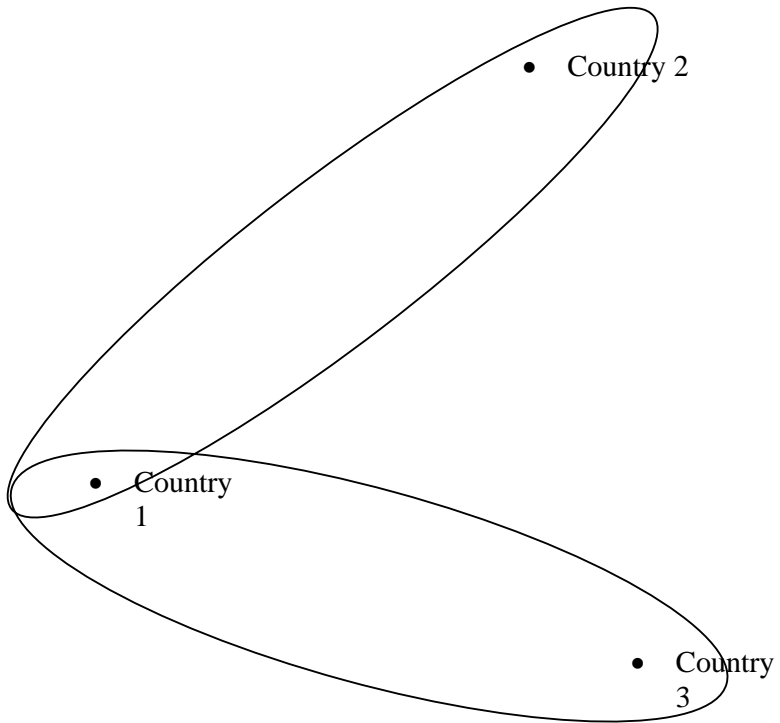


Figure 2. RTA's in Force in the APEC Area, 2002

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