

FTAs not the answer

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Australian Financial Review
14 August 2006
P. 22

The Doha round of trade negotiations is "somewhere between intensive care and the crematorium", as Indian Trade and Industry Minister Kamal Nath put it. The issue for Australia is: what to do now?

There will be a temptation to focus on the so-called free-trade agreements (FTAs), which are actually bilateral discriminatory preferential trade deals.

If everyone is doing this, we may have no choice but to join in, but world trade based on myriad differing FTAs will constipate trade flows and be especially disadvantageous for Australia. The winners will be the larger free-trade blocs - the North American Free Trade Agreement and the European Union.

What are the alternatives? The first is to see what can be rescued from the debris of the multilateral framework.

The Doha round agreed on a series of mutual concessions, but came up against the politics of multilateral negotiations. The developing countries saw this as the "development round" in which they would get benefits and give little in return, the Europeans had pushed their farmers as far as they were able and the Americans thought that no deal was better than a poor deal. The fact that there were advantages for each major party left at the table should give us some hope that these benefits, at least, should be achievable.

One problem is the mindset of World Trade Organisation negotiators. They give a concession only if one is offered in return - quid pro quo negotiation. This is a false basis for trade reform: reducing barriers is, in fact, in the overall interests of the country making the reduction. Rather than the "exports good, imports bad" mantra that WTO negotiations foster, the benefits come as much from cheaper and more varied imports. More exports help living standards only in as far as they allow more imports.

The quid pro quo negotiation may have been based on bad economics, but it has been enormously successful and beneficial in reducing trade barriers. Multilateral cuts deliver even more benefits than unilateral ones. Perhaps most potently, the sectional interests of exporters can be marshalled to provide the domestic support needed for barrier reduction.

But even the most successful strategy eventually runs out of puff, and that stage may have been reached. It leaves behind an unhelpful legacy that allows vested interests to resist trade liberalisation on the grounds that the other side has not given enough in return.

The reaction should not be to promote bilateral trade deals. These are based on a different falsehood - that these are "free-trade" deals - when they are actually preferential and discriminatory.

We might feel able to negotiate a reasonable balance of mutual concessions in our own FTAs, but once everyone is doing them, we'll be disadvantaged by deals to which we are not a party; for example, a US-Korea free trade deal would discriminate against our beef exports to Korea.

So we need to retain the dregs of Doha. It can't be true that a poor deal that lowered barriers is worse than no deal at all. As well, we should make sure the multilateral infrastructure is not lost. The WTO embodies a dispute-resolution procedure that should be kept in place in some form.

There are other avenues that could be explored. Ross Garnaut and David Vines favour open-ended regionalism and schemes to "untangle the spaghetti" of diverse and incompatible rules of origin.

Bill Carmichael and the Tasman Group advocate enhancing domestic transparency to identify which areas of reform would be most beneficial, as a basis for international negotiation. These ideas are built on the presumed advantage of openness, and aim to mobilise the dispersed interests of consumers rather than the concentrated vested interest of producers.

It may be useful to think about integration in a wider context than tariffs. For most of the developed countries, tariff barriers are already low. The biggest boost to integration will come not from further reductions, but from dealing with "behind-the-border" issues: the multitude of incompatible rules and regulations - quarantine, product safety, technical standards, consumer protection - which form another dense layer of discouragement to international trade.

There needs to be a forum where convergence of these rules can be negotiated. If we are forced to deal in a world of FTAs, we might well concentrate on the issue of harmonising standards (our FTA with New Zealand being the model), rather than tariffs as such. This requires a different style of negotiation from the quid pro quo tariff bargains, emphasising technical issues rather than horse-trading.

Our vulnerability to being left out in a world of regional trade blocs makes it more vital that we are part of whatever trade groups might form in Asia. The Asia-Pacific Economic Co-operation and the Association of South-East Asian Nations have so far yielded only modest progress. But it may be that the countries of the region can be persuaded to achieve commonality of rules of origin (and other rules) within a group large enough to give us most of the benefits of full multilateralism.

Doha, and the approach that it represents, seems to have come to a dead end. The WTO approach, for all its success, has been squeezed dry. It was based on a confidence trick - that the benefits of freer international trade rely on quid pro quo deals.

The path opening up - more bilateral "free-trade" deals - is based on a much more pernicious untruth, and other paths for furthering freer international trade should be the priority.

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