

## Is a new approach to trade reform emerging?

As with most things in life, there are two main schools of thought when it comes to trade reform – and neither of them is ‘right’ or ‘wrong’ – although the proponents bicker about whose model is the most appropriate.

On one hand there are the multi-lateralists who, as the name suggests, promote the wisdom of approaching trade reform multi-laterally. They claim this is the most appropriate way of making real gains toward freer and fairer global trade. Many of the opponents of the FTA between Australia and the USA base their opposition to the proposed deal on the argument that it would alienate Australia’s other trading partners and weaken their resolve for global reform.

The bi-lateralists, while sharing the desire for similar outcomes as the multi-lateralists, can be heard claiming that the process of multi-lateral trade reform is too slow. Being a process that combines input from hundreds of countries, multi-lateral agreements are often filled with compromise and loopholes and can be structured more to ‘get an agreement’ signed than to achieve freer trade in the shortest possible time. And as is often the case with a compromise, no one is really ever really happy with the outcome.

Since the repeal of the Corn Laws in England in the 1840’s, it has been established time and again that wealth and prosperity is shared across communities engaged in open and free trade. It appears that we have now reached a point where the lessons of the last 160 years are taking hold.

Trade reform over the last two decades has not only been to policy, but has involved changes to domestic economic structures and as such is essentially irreversible, unlike in the past when there were cycles of politically inspired free trade and protectionism.

Over the last few years we have seen the emergence of a ‘third path’ to trade reform; one that fits neatly in between the approaches mentioned above. This approach has been born out of frustration with the pace and scope of global trade reform. This ‘new’ paradigm is basically the application of process and reforms from the multi-lateral model to a bi-lateral context. The proposed FTA between Australia and the USA is an example of this approach.

It is not about toning down or abandoning the goal of more open global trade. Rather than damaging global trade reform, this ‘third path’ may in fact help achieve the desired reforms more quickly and thoroughly than could be achieved through a multi-lateral process.

Under this paradigm the role of the WTO is subtly changing. It is becoming less a forum for making global agreements and more reform facilitator and dispute resolution mechanism, promoting trade reform and helping countries and regional groups to develop free trade agreements using a set of common principals and goals.

The development of a set of common trade reform principals, or a ‘trade reform template’, for bi-lateral free trade agreements, means a commonality and ensuring reduced average farm tariffs, eliminating manufactured goods tariffs, using agreed mechanisms for calculating tariff rates and for reducing trade distorting industry assistance, eliminating export subsidies, instituting common sanitary and phyto-sanitary protocols etc.

This is a bit like the old Domino Theory, where country after country ‘falls’ (in this case not to communism but enters into an FTA with another country or regional group). This will create a web of agreements based on similar principals and mechanisms across the globe, freeing trade and reducing trade distorting interventions, achieving what the multi-lateral process set out to do, but by a different path.

In this case it’s not the journey that is significant, it’s the destination.

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## The Evidence.

Strong evidence for the third path hypothesis can be found in a recent address by US trade Ambassador Robert Zoellick in which he refers to a ‘building block’ approach to building trade reform momentum, in which multi-lateral and bi-lateral trade negotiations and agreements play an important role<sup>1</sup>.

**Mr. Stephen Deady, our lead negotiator for the Australia – USA FTA will be at the Agribusiness Congress on August 28<sup>th</sup> – it’s your opportunity to discuss the FTA and its implications for your industry with him.**

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<sup>1</sup> For the sceptics who have read this far, the above commentary on trade was written in June, well before the appearance of the following Zoellick address released on August 7<sup>th</sup> ‘03

### **Unleashing the Trade Winds: A Building-block Approach**

Ambassador Robert B. Zoellick - 07 August 2003

As President Bush's first term approaches its midpoint, the commentary about American trade policy has shifted. The debate is now over how—not whether the United States is advancing free trade.

America has stated its intentions plainly. We will promote free trade globally, regionally and bilaterally, while rebuilding support at home. By moving forward on multiple fronts, the United States can exert its leverage for openness, create a new competition in liberalization, target the needs of developing countries, and create a fresh political dynamic by putting free trade onto the offensive.

America's trade policies are connected to our broader economic, political, and security aims. This intellectual integration may confound some trade scholars, but it follows in the footsteps of the architects of reconstruction after 1945. In fact, its roots extend to the protesters who dumped English tea in Boston harbor. To be sustainable at home, our trade strategy needs to be aligned with America's values and aspirations—as well as with our economic interests. And to be influential abroad, we seek to listen and learn from our trading partners, large and small.

To lead globally, President Bush recognized that he had to reverse the retreat on trade policy at home. He pressed Congress to enact the Trade Act of 2002, which re-established the vital trade authority ("fast track") that had lapsed for eight years. The act included a large, immediate down payment on open trade for the neediest, cutting tariffs to zero for an estimated \$20 billion in American imports from the developing world.

To rebuild a congressional coalition, the administration had to demonstrate that the United States would use international rules to pursue its interests. Since American trade-weighted tariffs average only about 1.6 percent, congressional support for lower barriers depends on the Executive's willingness to use the same rules employed by other countries.

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### **The task at Doha**

The United States is fully committed to completing the DDA by the agreed deadline of 2005. We have already tabled far-reaching proposals in agriculture, industrial and consumer goods, and services, to highlight the primary goal of the WTO: to open access to markets and to spur growth and development.

America's goal in the farm negotiations is to harmonize subsidies and tariffs while slashing them to much lower levels, on a path toward elimination. The last global trade negotiation—the Uruguay round — accepted high and asymmetrical levels of subsidies and tariffs just to get them under some control. For example, the United States accepted a cap for the European Union's production-distorting subsidies that was three times the size of America's, even though agriculture represents about the same proportion of our economies.

The United States wants to eliminate the most egregious and distorting agricultural payments, export subsidies. We would cut global subsidies that distort domestic farm production by some \$100 billion, slashing our own limit almost in half. We would cut the global average farm tariff from 60 percent to 15 percent, and the American average from 12 percent to 5 percent. The United States also advocates agreeing on a date for the total elimination of agricultural tariffs and distorting subsidies. The American proposal for manufactured goods would free the world of tariffs on these products by 2015. This was the trade sector first targeted by the founders of the General Agreement on Tariffs and Trade (GATT) in 1947; after more than 50 years of work, about half the world's trade in goods has been freed from tariffs. It is time to finish the job.

With zero tariffs, the manufacturing sectors of developing countries could compete fairly. The proposal would eliminate the barriers between developing countries, which pay 70 percent of their tariffs on manufactured goods to one another. By eliminating barriers to the farm and manufactured-goods trade, the income of the developing world could be boosted by over \$500 billion.

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### **Europe as partner**

As one African minister told me recently, when the United States and the EU agree on a course in the WTO, we cannot ensure success, but we make it much more likely. Fortunately, I have no doubt that my respected and close colleague Pascal Lamy, the EU trade commissioner, is just as committed to completing the Doha negotiation on time.

The United States and the EU share a common aim of trade liberalization, but have pursued different approaches. In the lexicon of the EU, the United States is pressing to "deepen" the WTO by freeing trade across the core agenda of market access. The EU's distinguishing agenda is to "widen" the WTO mandate by developing new rules to cover more topics. As one Asian colleague observed, the EU sees the world through the lens of recent European experience: it wants gradually to achieve a supranational system of governance for globalization. Yet many developing countries have no wish to add new topics to the WTO, believing our priority should be to spur more trade and investment. There is a risk that the EU will trade off cuts in barriers in order to add rules and institutions.

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Even if America and Europe cooperate, the Doha agenda will still be hard to achieve. (Sadly, Japan's mercantilist, zero-sum approach to trade is typified by its recent agriculture proposal, which argued for cutting its quota on imported rice.) It is encouraging to find a network of trade ministers, in both developing and developed countries, working together. Yet any decision by the WTO requires a consensus among its 144 members. Any one country—for whatever political or economic reason—can stop the Doha agenda in its tracks. We will not passively accept a veto over America's drive to open markets. We want to encourage reformers who favor free trade. If others do not want to move forward, the United States will move ahead with those who do. It is time for others to tell us when they are ready to open their markets, to table proposals to liberalize and to match their criticism with commitment.

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### **NAFTA and its imitators**

To multiply the likelihood of success, the United States is also invigorating a drive for regional and bilateral free-trade agreements (FTAs). These agreements can foster powerful links among commerce, economic reform, development, investment, security and free societies. The North American Free-Trade Agreement (NAFTA) not only almost tripled American trade with Mexico and nearly doubled its trade with Canada, but also made all three members more competitive internationally. NAFTA proved definitively that both developed and developing countries gain from free-trade partnerships.

Ironically, a number of European publications that have criticized America's "competitive liberalization" through regional and bilateral free-trade negotiations were noticeably silent when the EU negotiated 30 such pacts; the United States only has three, but we are hard at work. Since Congress granted the president fast-track authority, the United States has signed FTAs with Singapore and Chile and started talks for FTAs with the five nations of the Central American Economic Community, the five countries of the Southern African Customs Union, Morocco and Australia. We helped push forward the negotiations among 34 democracies for a Free-Trade Area of the Americas.

Our free-trade agenda conveys signals. We are open to free trade with all regions—Latin America, sub-Saharan Africa, Asia-Pacific, the Arab world and with both developing and developed economies. We want to expand commercial links with these countries. Equally important, all our free-trade partners, though varying greatly in size and development, are showing political courage at home by making the case for open markets and connecting those ideas to economic reforms. These are governments we want to help. One Europe-based publication recently claimed that the United States "has little to offer other countries" because America's barriers are relatively low already. But the "market test" is proving such commentaries mistaken, as countries are lining up to negotiate FTAs. Countries recognize that assured access to the huge, dynamic American market is a valuable economic asset. Because American FTAs are comprehensive, with high standards, our FTA partners stand out as good places to invest, as strong links in a global sourcing chain, or simply as promising markets in which to do business. We will work with our FTA partners—through the U.S. Agency for International Development (USAID) and with the multilateral development banks—to link liberalization to sectoral reforms.

Our FTA partners are the vanguard of a new global coalition for open markets. These partners are also helping us to expand support for free trade at home. Each set of talks enables legislators and the public to see the practical benefits of more open trade, often with societies of special interest for reasons of history, geography, security, or other ties. There is an old adage in American politics: "You can't beat something with nothing." We want the American debate to be focused on our agenda of opening markets, not on the protectionists' defensive dogma of closing them.

Whether the cause is democracy, security, economic integration or free trade, advocates of reform often need to move toward a broad goal step by step—working with willing partners, building coalitions, and gradually expanding the circle of cooperation. Just as modern business markets rely on the integration of networks, we need a web of mutually reinforcing trade agreements to meet diverse commercial, economic, developmental and political challenges. The United States is combining this building-block approach to free trade with a clear commitment to reducing global barriers to trade through the WTO. By using the leverage of the American economy's size and attractiveness to stimulate competition for openness, we will move the world closer toward the goal of comprehensive free trade.

<http://usinfo.state.gov/journals/itps/0803/ijpe/ijpe0803.htm>

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