Contents

List of Tables and Figures vi
Acknowledgments vii
List of Abbreviations ix

Introduction 1

1 ‘The Enfant Terrible’: Australia and the Reconstruction of the Multilateral Trade System 13
2 Coming to Terms with Multilateralism 86
3 Damage Control, Policy Stasis and Diplomatic Paralysis 66
4 Policy Innovation, Diplomatic Departures and the Uruguay Round 95
5 The Cairns Group 118
6 Aggressive Multilateralism: Negotiating Services 146
7 The American Way? Aggressive Bilateralism in Australian Trade Policy 171
8 The WTO System in Crisis 191

Conclusion 210

Appendix 1 Departments and Ministers responsible for GATT/WTO Negotiations 215
Appendix 2 GATT Trade Rounds 217
Notes 219
Index 251
the fact that Indonesia, Malaysia and Thailand shared Australia's problems with agricultural market access to the EC, their bilateral conflicts over Australia's textile, clothing and footwear quotas prevented multilateral cooperation. Indeed, the Community and ASEAN sided with each other in lodging a protest in the GATT Council against Australia's safeguard arrangements.

In this environment, it was very difficult to generate any positive policy dynamic. There was very little technical or analytical work being done in Trade and Resources, and little evidence of patient, low level diplomacy that was a necessary part of establishing a cooperative or coali-tional approach to dealing with trade problems in agriculture. Frustration with multilateral approaches to agricultural trade reform had led ministers and officials to adopt a strategy of trying to chip away at protective barriers through splashy but crude executive diplomacy and little side deals. But these achieved little. The best that can be said of this period is that it contributed to a growing realisation among officials and politicians on both sides of parliament that trade liberalisation and reform was the only way forward.

CHAPTER 4

Policy Innovation, Diplomatic Departures and the Uruguay Round

The election of the Hawke Labor government in March 1983 made possible a fundamental reassessment of Australia's approach to multilateral trade policy and the GATT. Such a reappraisal was long overdue. The sustainability of domestic insulation and industry protection depended on the viability of Australia's rural and mineral commodity export sectors. However for most of the postwar era the prices received for these commodities fell relative to the prices paid for its manufactured imports. Despite high productivity growth in agriculture, Australia was still confronted with a steady deterioration in its terms of trade, widening current account deficit, a chronic balance of payments problem, and a real decline of national income, culminating in the 'banana republic' crisis following the collapse of world commodity prices in 1985–86.1

Although Richard Higgott's claim that, by the mid-1980s, Australia had more in common with many of the least developed countries than the newly industrialising countries greatly overstated the case, his more general point about the growing marginalisation of Australia in the world economy was certainly valid. For instance, Australia's failure to participate in the expansion of trade in high value-added manufactures, intellectual property, services and capital had seen its share of postwar global trade decline from 2.5 to about 1 per cent of the total, while dropping out of the list of top twenty-five trading nations (having been twelfth in 1978). More ominously, Australia's economic significance in the East Asian region was waning at precisely the time that it was emerging as a major force in the international economy. This was starkly illustrated in the decline of Australia's market share with its biggest trade partner, Japan, and in the high growth markets of the region more generally (see table 4.1).2
The story of the Labor government’s efforts at structural economic adjustment has been told elsewhere and only a brief summary is necessary here. Beginning with financial deregulation, the removal of exchange controls on capital movements, and the float of the Australian dollar, Labor’s economic reform program was designed to expose the economy to international competition as a means to force structural adjustment. Dramatic unilateral tariff reductions announced in 1988 and 1991 were aimed at winding back uncompetitive industries, and a variety of government incentive and assistance schemes were developed to promote economic diversification towards more valued-added production, and the encouragement of services and manufactured good exports.

In the late 1980s and early 1990s the emphasis shifted to micro-economic reform to increase the efficiency of government utilities and infrastructure, and reforms to the industrial relations system designed to overcome labour market rigidities that had also contributed to high costs and inefficiencies. These reforms contributed to a dramatic transformation of the Australian economy and a period of sustained economic growth and rapid increases in the export of manufactured goods and services. This improvement was punctuated by a severe recession between 1989 and 1991, which can be partially attributed to the speculative boom associated with the lack of adequate prudential supervision in the newly deregulated banking system. But the recovery was followed by a period of steady and less volatile growth through the 1990s, and the continuing transformation of the Australian economy.

The external dimension of the economic reform process focused on trade policy, and in particular there was a commitment to liberalisation and multilateralism in the global economy, and increased economic engagement with the East Asian region. The latter strategy of linking Australian economic growth with the rapid industrialisation of East Asia was not, of course, a new concept. But Australia’s deteriorating trade performance together with its growing sense of isolation in the 1980s spurred the Labor government to focus much more on efforts to promote economic cooperation in the East Asian region. During a visit to Thailand in October 1983 Hawke called upon countries in the region, including Australia and New Zealand, to work together to develop a unified approach to multilateral trade negotiations. And, in a move that presaged the 1989 Asia Pacific Economic Cooperation (APEC) initiative, Hawke also signalled Australia’s interest in joining other countries in a regionally based search for a non-discriminatory agreement on trade expansion. Unfortunately, space considerations preclude a detailed discussion of APEC here. It is important to note, however, that unlike regional trade blocs in Western Europe and North America, APEC is based on the concept of ‘open regionalism’ whereby any trade liberalisation achieved through APEC processes would be extended to other countries on a non-discriminatory, MFN basis.

This chapter focuses on Labor’s agenda for the reform of the multilateral trade system, and in particular, the policy shifts that facilitated policy innovation in Australia’s preparation for the Uruguay Round negotiations. It explores in detail the reasons behind the decision to privilege multilateral trade policy over bilateral and regional initiatives. It also looks at the role of the ‘true believers’ who developed a new approach to agricultural trade reform when few believed it was possible; the establishment of the Cairns Group; the importance of Australia’s efforts to constructively engage United States negotiators; and the impact of the 1987 amalgamation of Foreign Affairs and Trade on Australia’s Uruguay Round diplomacy. The chapter concludes with a discussion of Labor’s approach to unilateral trade liberalisation and its critics.

Debacle at Geneva: The 1982 Ministerial Meeting

The antecedents of the Uruguay Round can be traced to 1982 when Trade Ministers from eighty-eight countries gathered in Geneva to launch a new round of GATT negotiations. At the time of the Geneva meeting the multilateral trade system was in crisis. The world economy
was in the grip of the worst recession since the 1930s. Growth in international production and trade had faltered and then in 1982, for the first time since the Great Depression, declined in real terms. Developing countries were staggering under a massive debt burden and IMF intervention had led many of them to impose new import restrictions in order to improve their external account positions. Exchange rate volatility and bound industrial tariffs led many industrialised countries to impose other non-tariff forms of protection, which plainly exposed serious deficiencies in GATT rules. Indeed, protectionist pressures were on the ascendancy in industrialised countries, due in part to rising levels of unemployment, the increasing trade competitiveness of East Asian countries, and the 1979 oil shock, which contributed to large trade deficits in oil-importing nations. And, of course, agricultural trade was in a shambles.

In this context, the United States argued enthusiastically for a new multilateral trade round, with an ambitious set of negotiating objectives that included not just agriculture but also new areas such as services, investment and high technology products. Many developing countries were cautiously supportive, believing that many of their structural problems could only be resolved by securing better access for their exports including agriculture, textiles and clothing. In contrast, the EC and Japan were generally on the defensive, knowing that any new GATT negotiation would invariably include agriculture. These were serious differences but such was the extent of the economic crisis that political leaders agreed to hold a ministerial meeting as a first step towards rectifying the decaying GATT framework for international trade.

Much like the WTO ministerial meeting held in Seattle in late 1999, the Geneva meeting was a disaster – for many of the same reasons. Part of the problem was that the United States had not sufficiently prepared the groundwork prior to the meeting. This became obvious to Australian officials as they worked to develop their own proposal on agriculture in the months leading up to the meeting. Still very much a single-issue country, Australia once again pushed for the full integration of agriculture into the rules of the GATT, and had developed proposals for a standstill and rollback of protectionist measures and for subsidy reductions. But these proposals were poorly constructed, too ambitious, and had been developed too late for Australia to cultivate support for them from like-minded countries including New Zealand, Canada, Argentina, Brazil, Chile, and most importantly, the United States.

For their part, the Americans were very slow to develop any concrete proposals on agriculture. Their foot-dragging could be attributed to a number of factors not least of which was their desire to secure CAP reform in such a way that their own agricultural support programs remained largely intact. It also reflected the arrogance of power: the United States tended to approach GATT negotiations with grand slogans but few practical ideas about how they might be realised or implemented. This was complicated by the inexperience of the new United States Trade Representative, William Brock, a politician with little knowledge of trade policy; an overly ambitious United States agenda which included new issues as well as old; and more generally, the widely divergent views among trading nations about appropriate trade and development strategies for the 1980s.

The lack of preparation, clear priorities, and support for an agreed agenda doomed the ministerial meeting to failure. Originally scheduled for three days, the meeting lasted twice as long with marathon sessions through the night aimed at cobbling together an agreed declaration. But agreement was possible on only vague generalities, dressed up as a 'work program'. After two days of fruitless talks, the conference chairman, Canadian trade minister Alan MacEachen, convened an emergency breakfast meeting of key ministers, ostensibly to discuss how to break the impasse which threatened to blow apart the meeting. Breakfast turned into lunch and dinner as the group bogged down largely on the issue of services (the discussion on agriculture lasted barely five minutes due to EC opposition). Furious at being excluded from this select gathering, Australia's Trade Minister Doug Anthony flew home from Geneva, leaving his deputy secretary, Colin Teese, to make plain his disgust at the plenary session of the meeting. Upon his return to Australia, Anthony described the meeting as a 'debacle' and a 'fiasco'.

In the days immediately following, there was talk in Canberra of moving the Australian mission to the GATT from Geneva to Brussels as a form of diplomatic protest. Although sober second thoughts killed that idea, the fact that it was even raised as a possibility is indicative of the depth of feeling in Canberra that the GATT had reached the limits of its usefulness. At the same time, however, change was afoot in Australia. For the emerging new generation of trade officials there were a number of important lessons from the meeting: the need for friends, the realisation that grand gestures and going it alone were not the way to proceed.

### Alternatives to Multilateralism?

As is typically the case after major setbacks in GATT negotiations, the collapse of the 1982 ministerial meeting led to an internal review of Australia's trade policy options. Although there was bipartisan consensus on the central importance of the multilateral system to Australia's trade interests, there was a small coterie of bilateralists in the Trade Department, mostly officers from the old Minerals and Energy Department who...
had been moved to Trade at the time of the 1977 reorganisation. They had long argued that Australia should withdraw from the GATT and focus its diplomatic efforts on negotiating bilateral and regional trade agreements, and the failure of the ministerial meeting provided ammunition for that view. However, in Australia’s case there were powerful arguments against these alternatives to multilateralism, more readily understood and accepted by the new government.

Part of the problem is that it is generally very difficult for small countries with little political or economic clout to prise open markets on a bilateral or unilateral basis. In arguing their case, supporters of bilateralism note that Australia is able to take advantage of the fact that many of its Asian trade partners resent the economic superpowers like United States, and prefer to deal with ‘less belligerent traders’ like Australia.” But this is not in itself a bargaining chip. Nor does it offer assurances that bilateral pressure on East Asian countries from the United States would not result in deals that diverted trade from Australia to North America, regardless of East Asian preferences. And, as we have seen, Australia’s efforts to deal with European and American protectionism and export subsidy practices on a bilateral basis yielded very few results.

A second difficulty for Australia was that its most important trade partners in the East Asian region, Japan and South Korea, were traditionally opposed to free trade agreements and other forms of discriminatory bilateral deals. This certainly limited Australia’s options, especially when economic analyses consistently suggested that the most beneficial free trade agreements for Australia would be with Japan and South Korea. Australian governments were also concerned that efforts to seek preferential trade agreements with the EC or the United States could undermine attempts to develop stronger economic ties with the East Asian region, or even invite retaliatory discrimination from them. It was precisely these concerns that led Australia to reject a proposal to extend the Australia–New Zealand Closer Economic Relations Trade Agreement (CER as it is more commonly known) to include Canada in 1989. In any case, by the late 1980s the case for preferential trade agreements between Australia and its major trade partners grew even weaker, with Australia’s already limited bargaining power in a preferential context further diminished by the unilateral tariff cuts announced in 1988 and 1991.

A third consideration that worked against Australia’s involvement in a bilateral trade agreement was its export profile in the early 1980s and the fact that preferential deals would have offered substantial benefits only if agriculture were included. This was an extremely unlikely scenario. It was hard enough to improve Australia’s market access on agricultural exports in multilateral trade negotiations where many trade-offs were possible, let alone in a strictly bilateral context where fewer gains were possible. Moreover, given the strength of domestic protectionist lobbies and the problems that would arise with their other trade partners if the United States or the Community offered preferential access on agriculture products from Australia, the possibility of a bilateral deal that included agriculture seemed extremely remote. Certainly, the knowledge that little could be achieved by way of improved market access for farm products had for a long time been a major factor in preventing Australia from seriously contemplating a bilateral deal with the United States.

Of course, small agreements that improved access for specific products like toothbrushes, chocolate bars or breakfast cereals to markets in South-East Asia are always possible. Moreover, the Australian government and private sector does have negotiating leverage in particular cases; for instance, in the past many Australian industry development programs relied on the considerable purchasing power of the public sector to extract concessions from foreign firms. But implicit in the bilateral approach to market access is the ability to achieve beneficial deals at the expense of other countries and, in most cases, Australia simply does not have that capacity.

Nor were Australian governments of either political stripe willing to resort to ‘linkage politics’ as a way of pursuing trade objectives. In its most desperate moments, the Fraser government had toyed with the idea of using other forms of leverage to secure outcomes. This included dropping hints about the future of American military installations in Australia, uranium exports to the Community, and access to Australian ports for Japanese tuna boats in the context of particular trade disputes. But Fraser was never willing to make good on these threats, partly because of a general view that trade politics should not be allowed to interfere with other aspects of international relations, but more importantly, because of the understanding that these high risk strategies were likely to lead to retaliation and escalation.

Another alternative to multilateralism was regional free trade agreements. During the 1980s many governments established regional trade agreements as an alternative to the multilateral trade system, evident in the emergence of geographically defined economic regions in North America, Western Europe and Asia. Indeed, frustration with the multilateral trade system stirred the Reagan Administration to launch several new initiatives to liberalise trade on a bilateral and regional basis, specifically with Canada and Mexico. While this reflected the increasing regionalisation of trade and investment patterns (as well as the desire of both Canada and Mexico to formalise their ‘special’ trade relationships with the United States and to have recourse to an effective dispute settlement mechanism), these initiatives marked a significant departure from
the United States commitment to multilateralism and the GATT system. Although some economists seek to justify bilateral and regional trade agreements as 'building blocks' of the multilateral system on theoretical grounds, the reality is that these arrangements tend to work against the interests of countries that are excluded from them, thus undermining the fundamental principles of multilateralism.14

The problem of Australia's exclusion from an obvious natural trade bloc like Europe or North America certainly explains Canberra's hostility to regional trade agreements in the 1980s and early 1990s. To be sure, Hawke's 1989 initiative to promote APEC was driven in part by a desire to promote regional economic cooperation and stronger trade links among its participants. Moreover, its strong trade policy focus was a tactic to push the major powers, especially the Community, to the negotiating table during the Uruguay Round. But East Asian opposition to establishing APEC as anything more than a loosely consultative process precluded any notion of transforming it into a discriminatory trade bloc. While this could complement multilateralism, it was hardly a viable fallback option for Australia should the world disintegrate into competing trade blocs.

These realities underlined the importance of the multilateral trade system to a small country like Australia. And yet, more than ever before, the multilateral trade system was under severe pressure. The drift away from GATT rules had accelerated since the conclusion of the Tokyo Round and fundamental norms like non-discrimination were being eroded through the proliferation of regional trade agreements, market-sharing arrangements and the increasing use of selective or discriminatory trade restrictions. The last included bilateral restraints such as Japan's 'voluntary' agreement to limit automobile exports to the United States, as well as temporary import restrictions that violated Article XIX provisions for the imposition of safeguards in specific circumstances.15 The use of safeguards was a particular concern to developing countries which were frequently the target of discriminatory or 'selective' import restrictions imposed by industrialised countries. And, of course, agriculture and textiles continued to be largely excluded from the rules of the multilateral trade system.

There was also a great deal of dissatisfaction with the GATT dispute settlement mechanism. To be sure, small countries like Australia had been able to use the dispute settlement process as a way of drawing attention to the illiberal practices of major powers. On occasion, this produced some useful results. Such was the case in September 1985 when Colin Teese secured an assurance from the EC Agriculture Commissioner, Franz Andriessen, that the Community would not subsidise high quality beef exports into Australia's Asian markets, in return for Australia agreeing to withdraw its complaint to the GATT about the EC beef regime. Notwithstanding these small victories, the GATT's dispute settlement processes were deeply flawed. For instance, any party to a dispute, including the 'defendant', could veto the formation of a dispute panel or the adoption of a panel report by the GATT Council. And, as Australia discovered when it made a complaint against EC sugar export subsidies in 1979, panels could be nobbled in other ways. Two panel members agreed that Community's sugar regime was the most clear-cut breach of GATT rules ever, but the third panelist, representing Switzerland, opposed their ruling on the grounds that he could never allow such a finding to be made against the Community.16

Long delays in the dispute settlement process also created incentives for countries to solve their trade disputes outside the GATT. The most notorious example of this was the Reagan Administration's decision to re-engage Section 301 of the United States 1974 Trade Act. Section 301 sanctioned government retaliation against foreign trade barriers that were deemed to have violated United States rights under the GATT, or that were deemed by the President to be 'unreasonable'.17 These sorts of actions essentially subjected smaller countries to the law of the jungle rather than the rule of law.

Pressures For a New Round

Protectionist pressures in the United States grew rapidly from 1983 due to the over-valued dollar and the resulting blow-out in the trade deficit. The Reagan Administration, keen to contain domestic protectionism and expand United States markets abroad, began to push again for a new Round of multilateral trade negotiations. In addition to its traditional interest in liberalising trade in agriculture and industrial products and strengthening the rules of the GATT, the United States was also keen to expand its purview to include trade in services, investment and intellectual property protection. These were areas where the United States was keen to defend and entrench its position as a leading exporter/foreign investor and where it believed that foreign government practices were prejudicial to its trade interests.

Like the United States, Australia was also strongly supportive of a new multilateral trade round but placed much more emphasis on issues of importance to smaller industrialised and developing countries, especially those in the Asia-Pacific region. In a submission to the GATT in 1985 Australia identified issues of particular concern including: the proliferation of NTMs on agriculture, tropical products and textiles; the growing use of selective safeguards by the major industrialised countries; and tariff escalation on products processed from raw materials.18 The reasons...
for Australia's championing of developing country concerns had changed very little since the 1940s. First, structural similarities between Australia and many developing country economies meant shared problems and interests in areas like agriculture and raw materials. Second, Australia's objective of expanding its trade with newly industrialising countries in the Asia-Pacific region depended in part on their ability to secure better access for their exports especially to the major industrialised countries. A third consideration was Australia's inability to act effectively on its own in the GATT and its hope that coalesional activity with developing countries would enhance its ability to influence negotiations and outcomes.

In the run-up to the Uruguay Round, however, it was not at all clear that developing countries would support the launch of a new Round. Many of them were opposed to the inclusion of the new issues like services and intellectual property, and quite rightly viewed them as an unwelcome distraction from their own longstanding concerns in areas like textiles and agriculture. Nevertheless, their opposition gradually softened, partly because of United States 'bad cop' behaviour and its use of bilateralism and aggressive unilateralism, and partly because of 'good cop' behaviour by Australia and other like-minded countries which urged developing countries to accept the inclusion of the new issues as part of the 'price' to be paid for market liberalisation in textiles and agriculture. By 1985 a majority of the GATT CPs, including many developing countries, were supportive of a new comprehensive round of negotiations; in October they agreed to engage in formal preparations towards a new Round, to be launched at the Uruguayan resort town of Punta del Este in September 1986.

Despite the opposition of ten 'hard-line' developing countries led by India and Brazil, the ministerial meeting at Punta agreed to launch a comprehensive new Round of trade negotiations covering a broad range of issues including: tariff measures and NTMs, agriculture, tropical products, natural resource-based products, textiles and clothing, safeguards, GATT articles, the Tokyo Round codes, dispute settlement, the functioning of the GATT system, and the three new issues of trade-related aspects in intellectual property rights, trade-related investment measures and trade in services. This was an incredibly ambitious agenda and yet ministers hoped to complete the round in four years.

The True Believers

During the period leading up to the Punta del Este meeting, responsibility for trade policy was passed to a new generation of Trade Department officials, men and women who were strongly supportive of the government's reform agenda and recognised that it would give Australia new negotiating flexibility across a wide range of trade issues. In particular, they welcomed the prospect of significant tariff reductions, not just because of the benefits that it would deliver to the Australian economy, but also because it would provide negotiating coin and give Australia status and credibility as a liberalising force in the Uruguay Round. Thus able to contemplate full participation in GATT negotiations for the first time since 1947, these officials began to piece together an imaginative new approach to multilateral diplomacy under the leadership of Peter Field.

Very much in the mould of Coombs and Crawford, Field was an intelligent, exuberant, hard-working and tough negotiator, greatly respected by friend and foe alike. Having served in Washington early in his career, and then as Special Trade Representative (Ambassador) to the GATT from 1982 to 1985, he had extensive knowledge of agriculture trade issues, first-hand experience of American and European policies and practices, and a wide network of contacts, several of whom became senior negotiators in the Uruguay Round. From 1986 when he became Deputy Secretary of Trade (from 1987 Foreign Affairs and Trade) until illness forced his early retirement in December 1992, Field was responsible for multilateral trade relations and was Australia's chief negotiator in the Uruguay Round.

In the early to mid-1980s when a head of steam was still gathering for a new Round, Field was one of a handful of 'true believers' dedicated to bringing agriculture back into the disciplines of the GATT. Field and his Australian colleagues, Don Kenyon, Graeme Thomson and Rod Hall, together with Leopoldo Tettamanti and Nestor Stancanelli from Argentina, Jules Katz and Clayton Yeutter from the United States, and the chair of the GATT Committee for Trade in Agriculture, Aart de Zeeuw, began to give shape to a plan for what might be achieved in the agriculture negotiations, at a time when few others in the GATT system believed that significant change was possible. At the same time, Australia made tactical use of the dispute mechanism process as a means of drawing attention to the shambolic nature of international agricultural trade, initiating complaints against Community subsidies on tinned fruit, and its sugar, beef and veal regimes.

This work in Geneva drew on valuable work that had been undertaken by the OECD to develop ways of measuring government assistance to agriculture. This work was the result of an Australian initiative, and it drew some of its foundations from the pioneering measurement work undertaken by the Australian Tariff Board and the IAC. The OECD studies were complemented by economic analysis and research in Canberra under the direction of Dr Andrew Stoeckel, director of the
BAE, and Geoff Miller, deputy secretary of the Department of Primary Industry. Two studies in particular, a BAE monograph on the origins, nature and effects of the CAP on agriculture production and trade (the 'Red Book'), and Miller's study of the political economy of international agricultural policy reform (the 'Gold Book'), made a strong case for reducing distortions in world markets and dramatised the real cost of protection to consumers. Nevertheless, even as Dawkins was paring back the Trade Department's policy functions, his conversion to trade warrior was well underway. Convinced by Field and his colleagues of the urgent need for reform in the international trade system, Dawkins soon warmed to the opportunities that beckoned and became one of its greatest enthusiasts.

Dawkins' maverick streak surfaced in his decision to appoint Alan Oxley as Ambassador to the GATT in 1985. Oxley had no background at all in trade policy, but he had Labor party connections and had worked as a political adviser to various Labor governments. Although his inexperience in trade policy and international trade negotiations was a source of considerable friction in his relations with long-serving Trade officials, Oxley's political nous and understanding of the media were valuable assets in the early years of the Uruguay Round, before the real negotiations commenced. Oxley was also responsible for getting the Cairns Group liaison mechanism working in Geneva, which was a crucial part of the process once negotiations on agriculture began in earnest.

Establishment of the Cairns Group

Although the basis for Cairns Group cooperation had been evolving for many years, it gained momentum at two key gatherings in 1986. The first was a meeting in April at Montevideo where officials from Australia, New Zealand, Argentina, Brazil and Uruguay met to discuss ways of handling the dumping of EC beef into the Brazilian market. This was followed in July with a meeting of a larger group of non-subsidising agricultural exporters in Pattaya, Thailand. Dawkins and senior Australian Trade officials were instrumental in bringing these embryonic coalitions together and formalising the group at a meeting held in the Queensland town of Cairns in August 1986.

The new Cairns Group coalition consisted of fourteen governments with an expressed interest in liberalising trade in agriculture: Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay. This was a heterogeneous grouping that was drawn from a full range on the economic spectrum, all points of the global political compass – North/West, South and East – and five continents. Collectively, the Cairns Group countries accounted for 25 per cent of world trade in agriculture (which was greater than the United States share and slightly less than that of the EC). The Cairns Group also had major export inter-
est in specific commodities, and accounted for more than 50 per cent of global beef and veal exports, 80 per cent of mutton and lamb exports, 35 per cent of wheat and rice, and 25 per cent of the world trade in dairy and sugar. Such a broad-based coalition would act as a 'third force' in the Uruguay Round, seeking 'to embarrass the Americans and the Europeans into some kind of action' and to guard against a bilateral deal between them that did not address Cairns Group concerns. It had never been intended that the Cairns Group would act simply as a catalyst to ensure that agriculture was firmly on the agenda for negotiations only to recede from the picture to allow the more typical pattern of 'pyramidal' negotiations between the United States and the Community. On the other hand, there was no template for the role that the Cairns Group might play, and no precedent in the GATT for this form of tightly organised and cohesive coalitional diplomacy. So in some respects, it is perhaps fortuitous that the American negotiators were in disarray during the opening phase of the Uruguay Round, preoccupied with preparations for the 1988 Presidential election and disabled by a 'lame duck' administration that had neither the authority nor incentive to muster the necessary congressional support for trade policies that might adversely affect some industry and rural sectors. Although the policy inertia in Washington boded poorly for the momentum gathered for a new Round of multilateral negotiations, this meant tackling the whole gamut of restrictions and distortions in agriculture trade, not just export subsidies. Dawkins got on well with Americans on the Community which was still very recalcitrant about the inclusion of agriculture in a new Round of negotiations. It also gave Australia influence and profile in both the pre-negotiation phase and during the negotiations at Punta del Este when Yeutter and Lyng included

Engaging the Americans

Australia's new credibility as a force for liberalisation, its ability to contemplate full participation in all aspects of the negotiations, and the energy, commitment and intellectual calibre of the true believers, meant that for the first time since the 1950s Australia regained its ability to 'punch above its weight' and be a force for good in the GATT. As momentum gathered for a new Round of multilateral negotiations, Australia's diplomatic efforts focused on three specific objectives: engaging the United States across all issues, but especially agriculture; creating the Cairns Group coalition and establishing it as a third force in future agriculture negotiations (chapter 5); and projecting Australia into a leadership role across a range of other issues including the controversial subject of trade in services (chapter 6).

Australian engagement with the Americans was facilitated by the appointment of Clayton Yeutter as the new United States Trade Representative (USTR) in mid-1985. Unlike most of his predecessors (and successors), Yeutter was an experienced trade policy-maker with a clear vision for the future of American trade strategy. In his first year as USTR, Yeutter launched an aggressive plan to expand United States export markets and rectify the ballooning trade deficit. This included Section 301 actions to prise open the South Korean insurance sector and the Brazilian computer market to United States companies and to force the Koreans to improve their regime for the protection of intellectual property (patents, copyright, trademarks, etc.). There were also battles to open the Japanese semiconductor market and to end European subsidies to Airbus (a competitor to Boeing) along with the imposition of trade sanctions on the Community in retaliation against various trade practices. The underlying message was that unless these recalcitrants and 'free riders' agreed to a new Round of GATT negotiations, the United States would go it alone.

Yeutter's principal target was the Common Agriculture Policy. As owner of a cattle ranch in Nebraska, he had experienced first-hand the consequences of agricultural protectionism. And, in a quintessentially American way, Yeutter too was a true believer: on more than one occasion, the USTR declared that he had been given a gift from God to solve the problem of agriculture. While waiting for divine intervention and the launch of the next Round of GATT negotiations, the Reagan government opened up a frontal attack on the CAP by engaging in a direct export subsidy war via its EEP. Yeutter's determination to do something about agriculture encouraged Australian officials to intensify their own diplomatic efforts in both Washington and Geneva.

One important objective for the Australians was to expand Yeutter's own vision for what might be achieved in agriculture. At this stage, United States officials were more narrowly focused on securing the elimination of export subsidies, whereas Field and his colleagues had the much more ambitious goal of bringing agriculture fully back into the GATT system. This meant tackling the whole gamut of restrictions and distortions in agriculture trade, not just export subsidies. Dawkins got on well with Yeutter and Agriculture Secretary Richard Lyng, both of whom encouraged Dawkins to press ahead with the Australian initiative to establish a third force that might break the traditional United States–EC impasse over agriculture. The successful launch of the Cairns Group in August 1986 changed the dynamics on agriculture in the final weeks leading up to the ministerial meeting in Punta del Este and provided a lever for the Americans on the Community which was still very recalcitrant about the inclusion of agriculture in a new Round of negotiations. It also gave Australia influence and profile in both the pre-negotiation phase and during the negotiations at Punta del Este when Yeutter and Lyng included
Dawkins in the face-off with the EC, which produced the agreement to include agriculture in the new Round. 30

Although agriculture continued to occupy centre stage in Canberra's preparations for a new Round, Australian negotiators took a prominent role in the discussion of non-agricultural issues as well. In particular, Australia was actively involved in the preparatory discussions on tariffs and NTMs as well as the new issue of trade in services. This reflected the fact that the Hawke government's domestic industry restructuring provided substantial negotiating coin, not just with respect to manufactured goods but also for some rural products. It also incorporated elements of a two-level game; in this case, adopting a high profile in the negotiations on tariff reductions in manufactured goods would help drive home to Australian firms the importance of becoming far more export-oriented themselves. Similarly, Australia's prominent role in the services negotiations was driven in part by the urgent need to boost value-added exports in this rapidly growing area of international trade.

A second reason for Australia's fulsome support for negotiations in areas other than agriculture related to the United States agenda for the Uruguay Round. The Fraser government's position on the 'new issues' (services, intellectual property and investment) had ranged from hostility to lukewarm support at best. At the 1982 ministerial meeting the Americans had been extremely annoyed by Australia's lack of support for their full (but still selective) agenda, and perceived Australia to be little more than 'a trouble maker that couldn't be relied on to back "good" policies on anything except agriculture', 31 In the lead-up to Punta, the Americans made it clear that their support for Australia's objectives in agriculture would be determined to some extent by the degree to which Australia reciprocated with support for the inclusion of new issues in the GATT. This entailed a bit of a balancing act for the Hawke government. On the one hand, the ALP government shared the developing-country view that the United States agenda diverted attention from other more pressing issues in trade, such as agricultural protectionism and the proliferation of NTMs. Moreover, Australian support for the inclusion of new issues like services and intellectual property rights risks alienating the developing countries that were Australia's strongest supporters in the campaign to restore agriculture to the GATT. On the other hand, without unqualified support from Washington for a new Round and a full-scale assault on agriculture protectionism, Australia's efforts on agriculture would come to nought. The challenge for Australian trade policy was to offer support for the United States agenda while ensuring that any new negotiations would also effectively address the concerns and needs of developing countries.

One way of ensuring that any new Round would serve the needs of smaller industrialised countries and developing countries, and not just the major powers, was by actively participating in all areas of the negotiating agenda. Of course, entrée to these groups was made possible by Australia's new credibility as a force for liberalisation and by the sheer energy and determination of the true believers who believed that Australia could influence process and outcomes. It was especially important for Australia to regain its status as a 'key country', especially after the humiliation of being excluded from 'Green Room' meetings during the Tokyo Round. (The Green Room refers to the private conference room of the GATT Director-General where important informal meetings of the heads of the main delegations took place, typically to resolve the most difficult problems or to alert capitals about serious problems that demanded political solutions.) To that end, Australian officials played a prominent role in preparations for the Uruguay Round, in both specific areas such as agriculture and trade in services and more generally in the build-up to the new Round. These efforts yielded immediate dividends: in November 1986 Alan Oxley was appointed to chair the GATT General Council which had responsibility for managing the GATT and its activities. More importantly, when preparations for the launch of the Uruguay Round bogged down in mid-1986, due to the opposition of a group of ten developing countries which opposed any discussion of the 'new issues' in the GATT as well as French intransigence on agriculture, Australia joined with a small group of developed countries (the 'Dirty Dozen') which worked to break the impasse in advance of the Punta del Este ministerial meeting that successfully launched the Round. 32

Institutional Capacity: The Creation of DFAT

In July 1987 the Hawke government amalgamated the Departments of Trade and Foreign Affairs as part of a major overhaul of the machinery of government. The creation of the new Department of Foreign Affairs and Trade (DFAT) effectively ended the outdated compartmentalisation of foreign policy and foreign economic policy, and the counterproductive turf warfare that had long been a feature of interdepartmental relations. This was a position that had been forcefully advocated by Stuart Harris, a former deputy secretary of Trade during the Whitlam years, Secretary of Foreign Affairs from 1984 to 1987 and Foreign Affairs and Trade to 1988. Notwithstanding the logic of Harris's arguments, the amalgamation was driven primarily by the Hawke government's broader desire to cut costs and enhance ministerial control of departments. Whatever the reasons, the outcome was the creation of new bureaucratic structures that would better support the Labor government's policy reform agenda.
Indeed, the amalgamation of Foreign Affairs and Trade could not have come at a more opportune time for Australia's effort in the Uruguay Round. The diplomatic achievements in Geneva, Cairns and Punta del Este had masked the fact that by 1986 Trade was on its last legs, pruned of its functions and starved of resources by a Labor government suspicious of its departmental clients, and ground down by years of border disputes with Foreign Affairs, and increasingly, Primary Industry. Although there was still a coterie of experienced and dedicated officers, true believers and dissenters among them, Trade's decline in the Canberra firmament had made it increasingly difficult to attract bright young recruits. In these circumstances, Trade no longer had the budget, personnel or resources needed to service the sustained effort involved in a major and lengthy international trade negotiation. The amalgamation changed all that, enabling Trade to command the resources of Australia's eighty-four embassies around the world, instead of a mere handful of trade policy officers in Brussels, Washington, London and Ottawa. Staff numbers grew, resources expanded, and the administrative and budgetary constraints on travel eased considerably.

However, the creation of DFAT was not without anxiety and tensions. Work in trade policy and trade negotiations is difficult: it involves high levels of technical complexity and it is invariably long term. For these reasons, institutional memory is very important (something that is well understood by the EC, although less so by the Americans whose senior negotiators are invariably political appointments and are subject to change with each new Administration). Prior to the amalgamation, a career in Trade typically lasted many years which meant that officials built up considerable experience and expertise, thus contributing overall to the department's collective memory. After 1987, however, a stint in trade policy and negotiations tended to be treated like any other Foreign Affairs 'posting' from which one could expect to move on after two or three years. This new mobility means that few DFAT officers are likely to remain in Trade throughout their careers, which could lead to a dilution of experience and knowledge in the area of trade policy. On the other hand, there are benefits to be gained from exposing Foreign Affairs officers to economic issues, and an experienced trade negotiating team can be pulled together from all sections of the new department as required. Apart from these longer term considerations, what is not disputed is the importance of the amalgamation to Australia's effort in the Uruguay Round. Without it, Trade would have found it impossible to maintain Australia's diplomatic activism over the eight years of the Uruguay Round. Moreover, the establishment of DFAT effectively mobilised foreign economic policy as another means to promote domestic economic reform.

Assessing Labor’s Approach to Trade Liberalisation

In concluding this chapter, it is important to examine and address the major criticisms of Labor’s multilateral trade policy in the 1983 to 1996 period. Some critics have argued that the Hawke government's approach to the Uruguay Round was driven primarily by neo-liberal ideology, vested corporate interests, and complicity with the 'free trade project'.

There is, of course, some truth in such an assessment. But to explain Labor's trade policy solely in terms of a broader ideological shift is to oversimplify a far more complex process. Indeed, one of the problems with the unidimensional explanation is that it is often rendered with little regard for other policy influences and considerations such as the systemic pressures in the international trade system; the problems of Australia's economic vulnerability and its reliance on international trade; its inability to deal with its market access problems on its own; and the sheer depth of the economic crisis of the 1980s.

Moreover, many dimensions of Australia's approach to the Uruguay Round contradict such analysis. For example, in the services negotiations Australia sought to shield elements of its cultural protection, such as local content rules in broadcasting, from its liberalising commitments. And Australia's approach to the negotiations on trade-related investment measures (TRIMS) was far from liberalising. TRIMS are performance requirements and incentives that many governments used as a tool to extract benefits from foreign direct investment that may not otherwise accrue to the 'host' country, including export performance incentives, local content requirements, and measures to promote technology transfer and employment creation. The United States had strong ideological objections to the use of TRIMS and wanted to secure new GATT prohibitions on their use. Alone among OECD countries, however, Australia vigorously fought the United States proposals which posed a direct threat to the future of Australia's industry development programs, including those aimed at improving Australia's export performance.

Indeed, in each area of the Uruguay Round negotiations, Australia's objectives were driven by a different calculation of the national interest, and by differing configurations of societal interests, institutional inputs and systemic issues. This was as true of the negotiating position of other countries as it was of Australia and helps to explain apparent inconsistencies and contradictions in every country's approach to the Uruguay Round. It is also important to recognise that Labor's trade objectives were not limited to market-opening or defensive exercises: they were also focused on the improvement and creation of the institutions that provide a framework for the operation of markets. For example, in the services negotiations Australia's chief objective was the establishment of
an effective multilateral framework with strong general obligations for non-discrimination. Similarly, in agriculture Australia's major concern was to bring agriculture back into the GATT, and to create more transparency and accountability in national agricultural support regimes. Labor's emphasis on the establishment and improvement of these institutional frameworks was aimed at improving the ability of small countries to inhibit efforts by the economic superpowers to distort markets and shift their adjustment burdens on to more efficient producers in other countries. In other words, explanations that depict Australia's approach to the Uruguay Round in exclusively liberalising terms are not only misleading but they miss the more important point about Australia's efforts to enhance and shore up the institutions that promote fairness in the multilateral trade system.

A second set of criticisms relates to Labor's program of unilateral trade liberalisation, which, in little more than a decade, transformed Australia from one of the most highly protected markets in the Western world into the most open market, with virtually no non-tariff barriers and an average tariff rate of only 4.2 per cent in 1996 – less than the United States, the European Union and Canada. Australia's approach to trade liberalisation was deeply influenced by Professor Ross Garnaut, Hawke's economic adviser and author of *Australia and the Northeast Asian Ascendancy*. Garnaut argued that the efficiency and welfare gains from tariff cuts justified Australia moving ahead with unilateral trade liberalisation, regardless of the actions of its trade partners. This approach is based on the theory that a small country like Australia, which does not have sufficient market power to affect its own terms of trade, can best maximise its wealth by adopting unilateral liberalisation and specialising in what it can do best. Indeed, the concept of trade liberalisation is based on the argument that all countries will be better off if they specialise in the production of goods and services in which they have a comparative advantage and if they are permitted to freely exchange these goods and services with other countries. Trade liberalisation enables nations to more efficiently use their productive capacities, by enabling the reallocation of resources to those activities where a country has a comparative advantage, and by expanding the consumption opportunities of countries as more efficient production generates greater incomes.

Comparative advantage is a counterintuitive concept and it is worth digressing for a moment to examine it in more detail. Its origins are David Ricardo's two-country/two-product model, an anachronism today that nevertheless remains the basis for most international trade theory. Ricardo argued that even if one country is better at producing both products (absolute advantage), both countries will be better off if one country specialises in the product in which it has the greatest comparative advantage. The model was refined and elaborated by two Swedish economists, Eli Heckscher and Bertil Ohlin, who argued that comparative advantage is based on relative factor endowments (capital and labour). From this comes the notion that developed countries will produce capital-intensive goods for home consumption and export while developing countries will produce labour-intensive goods for home consumption and export.

When empirical studies showed that the Heckscher–Ohlin model did not hold for all cases, alternative hypotheses were developed that showed how comparative advantage could be created. For instance, historical models suggested that comparative advantage was related to the economies of scale that derived from countries taking the lead in the development of particular industries. Other models based on technological sophistication were developed to explain trade patterns for high technology products and non-standardised goods that cater to rapidly changing consumer tastes. Indeed, strategic trade theory argues precisely for government intervention and industry protection where there are long learning curves or significant externalities.

One of the problems with all of these theories of trade is their emphasis on prescription rather than explanation. As many commentators have pointed out, the production and trade patterns of industrialised countries do not conform very well to the laws of comparative advantage. Instead of specialising, countries tend to produce the same mix of products and trade them with each other. Nor do theories of comparative advantage explain the wide divergence of policy responses among countries at similar stages of development. Another problem is that trade theories seek to explain trade policies in isolation from aspects of the economy including production and finance, and in isolation from other societal concerns.

It is important to recognise, however, that governments are quite properly concerned with social and political objectives. Economic trade theories are designed to show what is most efficient economically; implicitly, domestic interest politics cost more than redistributing gains from an 'efficient' trade policy. But governments cannot easily ignore domestic interest politics and they frequently resort to trade policy as an instrument of domestic politics, for instance to create or to shore up electoral support. Ethical considerations also play an important role in trade policy, as is evident in measures to prevent imports made by child, slave or prison labour. And increasingly, concerns about culture, the environment, animal and consumer safety, and human rights colour the trade policy practices of governments.

Critics have argued that Labor's approach to unilateral trade liberalisation cast the debate in over-simplistic terms between a minimalists role
for the state versus 'protectionism', without proper consideration of other development models that seek to facilitate adjustment and overcome externalities and market failure. Another argument is that Australian governments have paid insufficient heed to the social cost of economic adjustment associated with the efficient reallocation of resources. However, it needs to be understood that the unilateral tariff reductions do not, in and of themselves, restrict governments from adopting measures to promote industry and facilitate adjustment.

Trevor Matthews and John Ravenhill were especially concerned that Garnaut's advocacy of unilateral trade liberalisation understated the role of reciprocity in maintaining international public goods, such as the multilateral trade system. The GATT approach to trade liberalisation and its norm of specific reciprocity have been an integral feature of its success. In the early years of the GATT the norm of reciprocity - the notion that tariff reductions were a 'concession' granted to another country in return for equivalent benefits - was important to convince domestic political constituencies that they were not giving away something for nothing. Similarly, the success of the Uruguay Round can be partly attributed to the fact that developing countries eased their opposition to the inclusion of issues such as services in the expectation that they would receive reciprocal benefits in areas such as agriculture, textiles and tropical products.

Notwithstanding these criticisms, it should not be overlooked that Australia's approach to trade liberalisation was not as 'unilateral' as it might have seemed: it was implemented in the context of protracted multilateral trade negotiations in which Australia expected to make significant gains in export market access. Moreover, Australia used these 'unilateral' cuts as its negotiating coin in these negotiations, and only agreed to bind most of these tariff reductions as part of the final Uruguay Round agreements. Indeed, Australia had further concessions to offer, but refrained from putting them on the table at the end of the Round because of the lack of adequate market access offers from other trade partners. In that sense, Australia's trade liberalisation in the 1980s and 1990s was not quite as 'unilateral' as they appeared at first blush.

Perhaps the more vexing question is whether the extent of Australia's trade liberalisation and deregulation will now make it more difficult to secure meaningful concessions from its trade partners in the future. This question is not meant to deny the immeasurable economic gains that have been derived from liberalisation and exposing the Australian economy to international competition. Moreover, Australia's willingness to practise what it preaches has enhanced its credibility and therefore its influence in the multilateral trade system. But unilateral trade liberalisation and deregulation in the agriculture, manufacturing and services sectors have also whittled away Australia's negotiating coin, thus further reducing its already limited negotiating leverage. Whether this might pose a problem in future trade negotiations, multilateral or otherwise, and whether it means that areas such as foreign investment review laws and cultural protection will end up on the negotiating table remains to be seen.
Minerva Access is the Institutional Repository of The University of Melbourne

Author/s:
CAPLING, ANN

Title:
Policy innovation, diplomatic departures and the Uruguay round

Date:
2001

Citation:

Publication Status:
Published

Persistent Link:
http://hdl.handle.net/11343/34420

File Description:
Policy innovation, diplomatic departures and the Uruguay round

Terms and Conditions:
Terms and Conditions: Copyright in works deposited in Minerva Access is retained by the copyright owner. The work may not be altered without permission from the copyright owner. Readers may only download, print and save electronic copies of whole works for their own personal non-commercial use. Any use that exceeds these limits requires permission from the copyright owner. Attribution is essential when quoting or paraphrasing from these works.