

# **AN INITIATIVE TO STRENGTHEN THE WTO**

*Proposed by:*

**The Tasman Transparency Group**

## **PREFACE**

The Tasman Transparency Group was formed to explore ways of strengthening the ability of the World Trade Organisation to open world markets. It is now clear that the power of protected domestic interests over national decision-making on trade policy has seriously limited the market opening offers governments were able to bring to the negotiating table in the Doha Round. The domestic transparency initiative proposed by the Group is a response to those pressures. This document explains the basis for that initiative.

The approach we propose to strengthen the WTO cannot now change the outcome of the Doha Round. Its purpose is longer-term — to help underpin the future viability of the multilateral system. We believe a relevant and forward-focused response is needed to allay negative reactions about the future of the WTO system following the collapse of negotiations in the Doha Round. That is why this explanation of our proposal is being released at this time. It is the best response on offer that addresses the causes of the difficulties now facing the WTO. We encourage others interested in strengthening the global trading system to support the initiative

**Founding Members of the Tasman Transparency Group are:**

National Farmers' Federation, Australia  
Federated Farmers of New Zealand  
New Zealand Business Roundtable  
Australian Services Roundtable  
New Zealand Services Group  
Wellington Regional Chamber of Commerce

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## **A TRANSPARENCY INITIATIVE TO STRENGTHEN THE WTO**

Why has the Doha Round of multilateral trade negotiations been able to deliver so little market opening action? The question has obvious relevance for national prosperity and for the future of the multilateral system. Australian and New Zealand industry and business organisations have formed the Tasman Transparency Group to explore ways of improving outcomes from multilateral trade negotiations, and to strengthen the WTO system. In pursuit of that objective we have asked the Australian and New Zealand governments to sponsor an international initiative that would reduce the power protected domestic interests now exert over trade negotiations.

### **The Problem facing the WTO system**

Progress in opening world markets through the WTO (and through all trade negotiations) is determined by two separate, and potentially conflicting, processes. One takes place in the international arena, and involves negotiations by participating countries aimed at reaching agreement to reduce trade barriers. This process occurs *between* governments, and is part of international trade policy. The other takes place at home, *within* individual countries participating in trade negotiations, and involves decisions about what access to domestic markets should be included in their negotiating 'offers'.

As has been demonstrated in the Doha Round, this second process is crucial to the outcome of negotiations. When governments individually succumb to pressure at home to minimise adjustment for their own protected industries, they cannot collectively (through trade negotiations) increase export opportunities for their world competitive industries.

The existing procedures of the WTO are concerned with the first process, while the problem that has stalled progress in the Doha Round has its origin in the second. It is now widely agreed, for instance, that market-opening action on agriculture is being frustrated by the power exercised by protected domestic farm industries over their own governments' decisions on protection. Their political influence was responsible for the backsliding that occurred from commitments taken on agriculture in the previous Uruguay Round. And it has clearly limited the market opening offers on agriculture that governments were able to bring to the negotiating table in the Doha Round. Similar influences have been responsible for the very limited progress in opening markets for our service industries. The influence of protected domestic

interests over national decision-making poses a serious threat to the future of the multilateral system, and to all exporters' access to world markets.

These negative influences operate at every stage of the multilateral system: in shaping the national agenda for negotiations; in influencing the agreements reached; and in causing governments to backslide on their commitments to liberalise domestic markets. For instance, they kept agriculture off the negotiating table for thirty years prior to the Uruguay Round; the Uruguay agreements committed governments to liberalise, yet legitimised action to avoid the domestic adjustment involved in doing so; and the task of making worthwhile progress in opening agricultural markets still lies ahead.

Similarly, although the Uruguay Round established new disciplines for trade in services, the process of expanding global market access in services has proved dismally slow. The barriers to trade in services are typically in non-border forms, and often involve many opaque layers of domestic regulation. This increases the difficulty of knowing whether markets in countries practising these measures will be open to international competition following trade negotiations.

As we have learned from the Doha Round, non-border barriers are often not visible from outside the countries practising them. They are therefore less likely to reach the negotiating table unless governments in those countries recognise that barriers in this form also reduce their gains from liberalising — whether this takes place in a unilateral, bilateral or multilateral context. And, because they are in non-border form, they are seen by those who oppose their removal as belonging to the realm of domestic policy — beyond the reach of international rules and agreements.

A study recently posted on the WTO website confirms the nature of the problem facing the multilateral system. After reviewing the experience of forty-five member countries the major conclusion of the WTO study is that the quality of outcomes from the multilateral system depends on decisions taken by individual governments at home, about their own trade barriers, and reflects the interaction between private interest groups and national decision-making:

“This compilation of forty-five case studies ... demonstrates that success or failure is strongly influenced by how governments and private-sector stakeholders organize themselves at home ... Above all, these case studies demonstrate that...sovereign decision-making can...undermine the potential benefits flowing from a rules-based international environment that promotes

open trade.” [Managing the Challenges of WTO Participation-45 Case Studies, December, 2005]

The WTO’s ability to open world markets is constrained by domestic pressures that operate in the domestic political arena, that focus on domestic policy issues, and that exercise power over domestic decision-making. Governments will always face strong pressure against reducing domestic barriers unless there is widespread awareness, among their domestic constituents, that the national economic benefits at issue outweigh the adjustment involved for protected domestic producers.

Any solution to the problem must therefore include a domestic process that can address those negative pressures, rather than continuing to rely solely on international processes that cannot.

Recent World Bank studies on the potential gains from the Doha Round concluded that:

- the bulk of the gains from global liberalisation would come from opening world markets for services; these gains would be very evenly shared among developed and developing economies;
- agriculture is responsible for two-thirds of the possible gains from opening world markets for goods;
- over ninety per cent of the possible gains from liberalising agricultural markets come from reducing barriers to imports;
- a mere 2 per cent of these gains would come from eliminating export subsidies and 5 per cent from domestic support measures;
- in the case of both services and agriculture, the bulk of the gains come from improved domestic efficiency.

It follows that, unless governments were able to achieve significant outcomes in opening world markets for services and reduce significantly the import barriers shielding their highly protected farm products, the gains from the Doha Round would be paltry-- at best.

After four years of negotiations there has been minimal progress in liberalising world markets for services. The only progress on agriculture to date is an agreement to eliminate export subsidies by January 2014. The countries refusing to reduce the barriers sheltering their highly protected industries are shooting themselves in the foot, twice. They forfeit the gains in domestic economic efficiency (the unilateral

gains that do not depend on the WTO system), and they diminish the capacity of the WTO to deliver the additional gains in market access (for all participating countries) from liberalising in a multilateral context. The clear message is that effective governance in the multilateral (WTO) system depends on the decisions individual governments take at home.

### **The proposed solution**

The World Bank studies and subsequent developments in the Doha negotiations confirm the need to add a **domestic transparency process** to underpin the existing **international** processes of the WTO. It is needed to focus the attention of governments, and their broader domestic constituencies, on the economy-wide gains at issue in reducing their *own* barriers to international competition.

The logic on which it rests is straightforward: the gains available to countries participating in multilateral trade negotiations depend on the domestic market opening decisions each takes **to** the negotiating table, not the ‘concessions’ they hope to take **away** from it.

The contribution of the proposed domestic transparency process in restoring better outcomes from multilateral negotiations is therefore to help governments resist the adjustment-averting demands of protected domestic interests when preparing their negotiating ‘offers’.

The WTO has no authority to address this issue. It is simply a set of rules and a negotiating forum, driven in both cases by what its member governments are prepared to agree to. What we have witnessed in the Doha Round is therefore not a failure of the multilateral system, as many have concluded, but the failure of participating governments to provide the support it needs — by promoting greater awareness at home about what is at stake domestically in trade liberalisation.

Without that support domestic pressures will continue to spill over into the international processes of the WTO, which are neither designed nor equipped to accommodate them. Thus the challenge for participating governments, which the Doha negotiations have served to highlight, is to devise a means of dealing with those pressures that will underpin better outcomes nationally and more fruitful international agreements.

A central aspect of our proposal is to create a special facility — we suggest a transparency agency — within the WTO, at arms length from the negotiating process,

dedicated to helping individual governments introduce domestic processes that will enable them to secure better outcomes from multilateral negotiations. The choice, about whether to take advantage of the facility, is entirely a matter for individual governments. No compulsion is involved in the proposal.

The proposed transparency agency would not replace any existing WTO institution or process, and would have no power to enforce introduction of any domestic procedures. It would rely entirely on persuasion, on demonstrating to individual governments why the gains they hope to take **away** from international negotiations depend on what they (and other WTO countries) take **to** the negotiating table.

There can be no “one shoe fits all” approach. The role of the transparency agency would be to encourage ownership, by each WTO member choosing to use the facility, of the enhanced domestic transparency processes it helps to work out with them. We believe that is the best way to respect the diversity of cultural and political systems among WTO members, and to ensure full domestic ownership of national trade policy.

There are obvious difficulties in introducing a transparency agency into the WTO. Given the consensual nature of decision-making in the world trade body, it will require patient effort and debate to gain the necessary international support to make that possible.

Failure to pursue the initiative at all, because of those difficulties, is not an acceptable option--no matter how demanding the task or how long it takes. The highest priority must be on securing agreement to help individual governments add a domestic transparency process to underpin existing WTO processes.

We do not suggest that our preferred option, of establishing a new institution within the WTO, is the only way to do that. But there is a clear need, when exploring other ways of doing it, to ensure they do not result merely in another *international* process — as happened to a similar initiative during the Uruguay Round.

The additional WTO process we advocate operates at *home*, in the domestic policy environment of WTO members, where the positive or negative perceptions about the domestic consequences of liberalising hold sway and where decisions about protection are made. It involves public participation in the process through which advice on protection is formulated, thus increasing the likelihood of a more comprehensive domestic commitment to the outcome. And it raises public awareness

of the larger national rewards from reducing domestic barriers, thereby arming governments against pressure from protected domestic producers seeking to avoid the adjustment involved for them.

The transparency initiative we propose deals with the problem facing the multilateral system (and our world competitive industries) at its source, while leaving national governments in full control of domestic policy.

The reason for adding a domestic transparency process to underpin existing WTO processes has been explained by the Hon. John Howard, MP, Prime Minister of Australia:

“The dynamic supporting trade liberalisation in democracies will only succeed if communities in each country believe that it is in their interests to liberalise...In the Australian context, the work of the Productivity Commission and its predecessors...has been fundamental to building and maintaining Australian public understanding of the benefits of greater openness to international competition...If other countries could adopt similar transparent institutional responses, public opinion would be better informed on the cost of trade barriers, and support would be built for good policies in broader areas of industry protection.”

This process made it possible for Australian governments to reduce trade barriers unilaterally, in the face of strong pressure from powerful domestic groups opposing reform. It is therefore relevant in dealing with the same pressures all governments face, and which have stalled progress in the WTO.

The role of the domestic transparency procedures we advocate is to provide the information governments (and their domestic constituents) need to reduce the political costs of liberalising domestic markets, by making the consequences for the economy and community more transparent. Their contribution in helping restore the multilateral system is to enable domestic economic welfare replace domestic political pressures as the driver in multilateral negotiations.

It is only by having such a basis for giving priority to national over sectional interests in domestic preparations for the bargaining process that a closer match can be established between the expectation of national gains from international negotiations and the outcome of the negotiating process itself. Protected producers who felt they would be adversely affected by barrier reductions that are widely perceived to be nationally beneficial would then find it more difficult to secure public support for resisting market opening commitments.



## Next Steps

It will take considerable effort and debate to gain the support in other countries needed to place the proposed initiative on a future WTO agenda. The Australian government has explained why this is so:

‘Although there is abundant evidence that trade liberalisation ... contribute(s) to economic growth and job creation, often the public perception is the reverse: that reductions in tariffs ... lead to job losses. This is because the benefits... are often less immediately apparent than the costs ... for particular firms or industries...’ [In The National Interest: Australia’s Foreign and Trade Policy White Paper, Canberra, August, 1997]

The Tasman Group is therefore asking the Australian and New Zealand governments to advocate the proposal outside the WTO — including in APEC, the World Bank, the IMF, the OECD and UNCTAD. We are also suggesting that Australia and New Zealand sponsor at least one international meeting to discuss the proposal before the next APEC leaders’ meeting, for which Australia is host, in September 2007. This would enable participation by representatives of relevant international institutions that have drawn attention to the need for greater domestic transparency in trade policy. It would also provide an opportunity for public discussion, and for raising awareness of what is at issue in the proposed initiative.

Arguing the case for the domestic transparency initiative in the international arena, outside the Doha context, is a necessary step in gaining the support needed to place the issue on the WTO agenda. The most appropriate time to begin doing that is now, when other countries are sharing our frustration at the progress achieved through existing WTO processes. Unless we take this opportunity to further the case for domestic transparency, we will remain forever in the position we currently find ourselves — lacking the international interest and support needed to place the proposal on the WTO agenda when next there is an opportunity to do so.

The Tasman Group recognises that it also has a responsibility to explain the grounds for introducing the additional WTO process and to enlist support from organisations representing exporting industries in other countries. To this end the Lowy Institute for International Policy will host an international meeting to discuss the proposal in the first half of 2007.

We have asked the Australian and New Zealand governments to establish a fund to service the effort we wish to undertake in cooperation with them, and to formalise official support for it. The industry coverage of the potential benefits is comprehensive and the proposed initiative has received substantial support from industry and business organisations, in both countries. The challenge ahead, for our governments and for us, is to advance international understanding of the economy-wide benefits at issue for all WTO member countries — and thereby secure the support needed to place it on the WTO agenda when next there is an opportunity to do so.