

## THE G20 COMMITMENT TO RESIST PROTECTIONISM

### Vox Ebook misses the point

The G20 leaders' commitment of 16 November 2008 to resist protectionism is not self-fulfilling. If the *Vox Ebook on Protectionism* was intended to help them act on that commitment, it has three shortcomings. It treats the threat as **short-term**, offers fleeting recognition that it originates in the **domestic** policy environment, and offers no response that deals directly with the ongoing **domestic** causes of protectionism. It is important that these shortcomings are recognised by G20 leaders, who must now be contemplating tangible ways of implementing their commitment.

It may be that the responses offered in the *Ebook* were constrained by riding instructions limiting their focus to the present global economic crisis. Whatever the explanation, however, the suggestions offered are too vague to counter the threat protectionism poses to global prosperity. Hadi Soesastro correctly observed that "the solutions available to national leaders lie outside the narrow WTO negotiations."<sup>1/</sup> Wendy Dobson observed that "the appropriate response lies in domestic policy reform, not protectionism."<sup>2/</sup> And R.V. Kanoria concluded that "countries need to take unilateral action to open up trade and voluntarily globalise."<sup>3/</sup> Yet the suggestions made in the *Ebook* to help G20 leaders **act** against protectionism do not match these insights. They are not grounded in the reality that protectionism arises from domestic policy decisions taken by national governments under pressure from protected domestic interests. In the market opening 'offers' prepared for multilateral trade negotiations, those with a private interest in maintaining protection have been able to promote their interest at the expense of the broader **public** interest.

The *Ebook's* suggestions generally focus on action to overcome the global economic crisis. While that crisis may seem to have increased the temptation for governments to resort to protectionism, it is not the underlying cause of it. That temptation will not go away when the global economic crisis ends. Experience over the life of the Doha Round confirms that it is alive in good times as well as bad. For most of the Doha Round global economic conditions were normal, even buoyant. Protectionism is as alive in booms as it is in recessions. Any response to the threat must therefore be effective in the long, as well as the short, term.

The short term objective set by G20 leaders is to find a basis for reaching agreement in the Doha Round. Given that negotiators in the end were unable to agree about 'modalities' (that is, what they were negotiating about), it is clear that anything finally agreed will be far from perfect. There is little prospect of an agreement that has substance if negotiators follow Richard Baldwin's suggestion that "trade ministers...should meet, agree what they can, and declare victory."<sup>4/</sup> That is an accurate description of how multilateral trade agreements are struck now. It almost guarantees that a Doha 'victory' will not advance the G20 commitment. Much will remain to be done beyond the Doha Round to give the G20 commitment substance. Yet no long-term response is offered by Baldwin or the others in the *Vox Ebook*.

The book's contributors offer scant recognition that protectionism originates in the domestic policy environment, and that it needs to be tackled there. For instance, Professor Ann Capling refers to "the well known benefits of unilateral liberalisation", yet (in the same sentence) offers adherence to international rules as a way for governments to "hold the line on protectionism

against powerful domestic forces."5/ We are left to conclude that domestic reform can be imposed from the outside--by relying on the power of international rules. Skirting around the domestic source of the problem simply compounds the difficulties that have beset the multilateral system. Unless the domestic causes of protectionism are faced squarely, the G20 commitment will remain just that—a commitment.

### **The Doha process has been captured by special interests**

The domestic source of the problem was confirmed by a recent WTO study. After reviewing the experience of forty-five member countries, the study concluded that outcomes from multilateral trade negotiations depend on decisions taken by individual governments at home, about their own trade barriers, and reflects the interaction between private interest groups and systems for 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 organise 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.”6/

The Doha Round has stalled because protected industries dominated the negotiating strategies of their governments. While most market access requests responded to domestic producers seeking external markets, the reciprocal offers of access to domestic markets were heavily influenced by protected domestic producers who felt threatened by the prospect of having their markets open to international competition. As a result of their influence, the means used to protect them have been moved further back into domestic policy--and further away from the authority of the WTO. Their influence over national decision-making has swamped consideration of the economy-wide (national) interest in domestic preparations for multilateral trade negotiations. And it is these larger, economy-wide, gains that provide the economic justification for opening domestic markets to international competition. For instance, the major gains for the US would have come from cutting its own farm subsidies because it is Americans, not foreigners, who pay for them. Those who pay for European farm policies are Europeans. And developing countries bear the costs of their tariffs on manufactured imports.

Most of us have a limited understanding of what is at issue in trade liberalisation—the opportunity to enhance national wealth by engaging in world trade on the basis of what we do best. Our response to the prospect of opening domestic markets is influenced by the information available to us about the domestic consequences. In the absence of public information about the economy-wide gains at issue for the community as a whole, and in view of the quite visible costs to the prospective losers, the latter have naturally found sympathy at home. As a result, governments have had difficulty mobilising a strong domestic commitment to reduce their national barriers in a trade bargaining context.

In domestic decision-making about protection there will always be tension between the private interests of those who depend on it and the public costs their protection imposes on the rest of the community. It is only by having 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. There is no such discipline in the way domestic preparations for international trade negotiations are structured at present.

### **A strategy to address the problem**

That insight, grounded in both logic and experience, provides the basis for the response proposed by Australian and New Zealand industry and business organisations. Reflecting Australia's experience, the Tasman Transparency Group (TTG) has proposed adding a domestic transparency process—developed, owned and operated by individual WTO countries—to underpin the existing international processes on which the WTO relies.

The logic supporting this response to protectionism is as follows:

- the greatest gains for countries liberalising through multilateral trade negotiations come from reducing their own barriers;
- the residual gains available from liberalising in a multilateral context—those resulting from greater access to external markets—materialise only when participating countries agree to reduce the barriers protecting *their own* less competitive industries;
- both the major unilateral gains (from liberalising domestic markets) and the additional gains (*potentially* available from multilateral trade negotiations) depend on participating countries approaching the negotiating table with ‘offers’ consciously structured to secure the gains from liberalising their own markets.;
- the role of the proposed domestic transparency arrangements is to counter the negative influence protected domestic interests now exercise over the market opening “offers” participating governments take to Geneva;
- its contribution to strengthening the multilateral system is to help decision-making on protection (trade barriers) by participating governments reflect the interests of the domestic community as a whole, rather than pressure from protected domestic interests;
- it will do so by enabling WTO member governments to raise community awareness of the domestic costs of maintaining their own trade barriers, and the economy-wide benefits from removing barriers to international competition;
- as a result, protected domestic interests will find it more difficult to gain community support for resisting market opening commitments widely seen as nationally beneficial..

### **Need to add a domestic process**

The domestic transparency response brings into account a reality that existing WTO processes cannot address. The WTO has no authority to deal with the domestic pressures threatening its future viability. It is simply a set of rules and a negotiating forum, driven in both cases by what its member countries are prepared to agree to. That is the source of its present difficulties, and conveys a great deal about the options available to strengthen its ability to open world markets.

The influences that have stalled progress in multilateral trade negotiations operate in the **domestic** political arena, focus on **domestic** policy issues, and exercise power over **domestic**

decision-making. The lesson from the Doha Round is that traditional tit-for-tat negotiations are not the main game. The key decisions in multilateral trade liberalisation are made in the domestic policy arena of individual countries. Those decisions are made under pressure from protected domestic producers seeking to avoid the adjustment involved for them. When governments succumb to those pressures, as they have in the Doha Round, they not only forego the unilateral gains (in domestic efficiency) as a result of failing to reduce their own barriers. They also diminish the capacity of the WTO to deliver the additional gains (improved market access) available from liberalising in a multilateral context.

It follows that future ‘break-throughs’ will need to occur at home, in preparing the domestic market-opening ‘offers’ trade officials take to multilateral trade negotiations, and not in Geneva. WTO processes must **begin** with decisions taken at home to secure the major gains from liberalising domestic markets, and **culminate** in international negotiations—not the other way around. As Razeen Sally put it “..it is time to make trade policy less of a foreign-policy plaything in far-away international institutions. Instead trade policy should be hitched to domestic economic policy and its institutional framework. It has to be grounded in bread-and-butter domestic reforms..” 7/

The domestic transparency response turns on its head the traditional approach to multilateral trade negotiations, in which negotiators have sought to gain access to external markets while conceding as little access as possible to protected markets at home. Its strength is that it addresses directly the source of the difficulties that have stalled progress in multilateral trade reform, while leaving national governments in full control of domestic policy. It enables governments, and their domestic constituents, to work out for themselves that the economy-wide (public) benefits from opening domestic markets to international competition outweigh the (private) adjustment costs involved for protected domestic producers. It simply adds a domestic process to underpin the existing international processes of the WTO.

For a more detailed discussion of its relevance for the G20 commitment, see [the coverage on East Asia Forum](#).

The grounds for adding a domestic discipline to underpin existing WTO disciplines are compelling. If protection results from domestic policy decisions in individual countries (as it does), and if the WTO has no authority over the conduct of domestic policy in member countries (its charter recognises that the sovereignty of individual member countries is absolute and inviolate), then any response to the threat of protectionism must take place primarily **within** individual WTO member countries.

### **Incumbent trade officials resist change**

While that logic is compelling and uncontested, G20 leaders should expect strong opposition to it. When they sit down early in 2009 to discuss how to meet their commitment to resist protectionism they will become aware of a very large elephant in the room—an elephant with its territory under challenge. If Australia’s experience is a guide, it will take the form of entrenched resistance by trade officials comfortable with the existing international disciplines on which the WTO has relied.

It is often remarked that Australian trade officials, when they travel to international meetings, proudly proclaim how well Australia has performed in reducing its own protection. In fact Australia’s frontier barriers were reduced **unilaterally**, to secure the **domestic** gains from

opening our markets to international competition, and not through international negotiations or to meet international commitments.

The pride those officials express when they are abroad is not matched by their advice to governments, behind closed doors, at home. They then dismiss the process that made this performance possible as naïve and lacking relevance in dealing with the threat now exercising G20 leaders. It may seem naïve when viewed through a prism crafted by negotiators comfortable with things as they are. But it passed the only test of relevance that matters—it made it possible for Australian governments to remove this country's barriers, by raising community awareness of the domestic costs of maintaining them.

Australia's trade officials have form in maintaining this ambiguity. It was evident, for instance, in preparing Australia's market opening 'offers' for the Uruguay Round. They persuaded the then government not to use the domestic transparency arrangements that underpinned the unilateral reduction of our barriers on the grounds that this would disclose Australia's negotiating position to other countries in the trade bargaining process. Keeping Australia's negotiating position secret was considered more important than employing transparency procedures to build public understanding and support for negotiating 'offers' consciously structured to enhance national economic welfare.

This ambiguity has also been evident in the information provided to help public understanding of the consequences for Australia of bilateral trade agreements. As explained elsewhere, the effect has been to encourage a quite positive public expectation about the outcome of negotiations that has no basis in fact.<sup>8/</sup> This is probably inevitable when the information available to the community is delivered by officials whose job it is to sell the agreements they are responsible for negotiating. It confirms the need for a domestic process that is independent of both trade negotiations and trade officials. The contribution of transparency is to inform, not to manage, community understanding of what is at issue in opening domestic markets to international competition.

Their failure to offer, or support, any solution to the present impasse in the WTO system reflects a wish to maintain the status quo. If that impulse is shared by their colleagues in other countries, any initiative that addresses the domestic source of protectionism will require strong and patient advocacy by G20 leaders. Australia's experience suggests that any change to existing WTO processes is likely to be resisted by many within their trade bureaucracies, as well as those depending on protection. Both have an interest in maintaining existing arrangements, as (and if) the power they have exercised over domestic trade policy decision-making comes under challenge.

For that reason alone it would be unrealistic to expect the domestic transparency response to gain wide international acceptance immediately. Gaining support for it will require strong leadership and ongoing effort, and it would be unwise to set a rigid timetable. Its relevance in responding to the domestic origins of protectionism, not the difficulties of gaining acceptance of it in the short term, should determine the priority given it in further G20 discussions.

### **Building a domestic discipline into the G20 response to protectionism**

As a first step, and an earnest of their commitment to resist protectionism, G20 leaders could introduce domestic transparency procedures into their **own** decision-making on protection. In the case of the United States, for instance, the change required is minimal—it involves simply

adding to the existing charter of the USITC a requirement that its public reports should account for the economy-wide consequences of its recommendations on protection.

The relevance to the G20 commitment of the domestic transparency response hinges on answers to four questions:

- does it correctly identify the major influences responsible for stalling progress in multilateral trade negotiations ?
- does it address those influences ?
- are there other responses on offer (or in prospect) that address those influences at their source, while respecting the autonomy of national governments over domestic policy ?
- is it possible to bring ‘behind-the-border’ barriers, pervasive in world markets for services and widely seen as belonging to domestic policy, into multilateral reform except through domestic processes ?

In seeking answers to these questions it will be important for G20 leaders to engage those within their governments responsible for bringing to decision-making the economy-wide consequences of domestic reform, since that is the policy focus required to address the domestic issues now central to international trade reform.

Any response aimed at strengthening the multilateral system against the domestic source of its present difficulties must help governments develop negotiating ‘offers’ that will deliver the major (unilateral) rewards from opening their markets to international competition, while leaving them in full control of domestic policy.

### **There is a lot at stake**

Without a domestic discipline that meets these conditions, outcomes from multilateral trade negotiations will continue to be the accidental result of a balancing act—in the international arena—between the requests of foreigners and the demands of domestic pressure groups. If governments continue to meet WTO commitments to reduce protection in ways that avoid adjustment for their own protected industries, multilateral trade negotiations will continue to short-change participating countries.

As mentioned, it is not being suggested that the domestic transparency response could achieve spectacular results immediately. But its educative influence would irreversibly chip away the mystique and ignorance that has constrained national debates about the economic trade-offs involved in international trade negotiations. It would help correct the fundamental weakness of the present adversarial approach to negotiations, in which domestic pressure groups exert the dominant influence on the negotiating stance of governments. It should consequently make it easier for trade ministers to realize in their conduct of domestic policy the worthwhile objectives about which they express strident collective agreement when they meet in Geneva, or Washington or Lima. The test of its relevance is not whether it could move all nations to a best system, but whether they could generally do much better than at present. The existing approach is clearly broke, and needs fixing.

## END NOTES

1/ *Vox Ebook on Protectionism*, Centre for Economic Policy Research, London, p3.

2/ *Ibid*, p28

3/ *Ibid*,p20

4/ *Ibid*,p32

5/ *Ibid*, p16

6/ WTO Website : 'Managing the Challenges of WTO Participation-45 Case Studies', December, 2005

7/ 'After Doha : Protectionism Creep', *Far Eastern Economic Review*, vol 171, no7, p 35, August 2008

8/ See *Trade Policy at the Cross-Roads*, Pacific Economic Papers No.351, Australian National University, November 2005, PP36-38.