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Trade Barriers Impede Services

By Bill Carmichael
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These invisible obstacles can be removed only by adjusting domestic policy settings

The Australian Services Roundtable is meeting Trade Minister Andrew Robb and opposition trade spokeswoman Penny Wong today to review key issues facing our services industries.

An essential issue for discussion is an approach to behind-the-border barriers to trade that abound in international markets for ser-vices. The importance of this issue was heightened by Japan's commitment, in the agreement signed last week, to provide access to Japanese markets for Australian services.

The government has a compelling reason to promote an approach that can open markets for services because these industries account for more than three-quarters of national economic activity and employ four out of five Australians. Yet they contribute less than 25 per cent of exports, in part because their access to international markets is restricted.

While manufactured exports face mainly border protection in the form of tariffs, services also face non-transparent barriers. These are just as effective as tariffs and are much more difficult to identify as trade barriers - even by governments in the countries where they operate.

At present these opaque barriers become obvious only when Australian producers of services attempt to export. If we rely on this random, one-at-a-time way of discovering their presence in international markets, our ser-vices industries will always struggle to export.

The World Trade Organisation cannot deal with them because it has no authority over the conduct of domestic policy in member countries. A major challenge, thus, is to find a way of overcoming these barriers while leaving governments in control of their domestic policies.

A group of business leaders from Australia, New Zealand and elsewhere in the Tasman Transparency Group has urged the Australian government to encourage other WTO countries to remove these barriers through domestic transparency arrangements similar to our Productivity Commission. This approach reflects what we have learned from the Doha Round: that the key to progress in opening world markets has moved to the domestic policy arena.

The grounds for approaching behind-the-border barriers in this way are compelling. As the WTO has no authority over domestic policy in member countries, any response to these obstacles to international competition must be owned by, and operate within, individual countries.

In advocating this response in forums such as the G20, the government could draw on the substantial body of thought published by the UN Conference on Trade and Development, the Tasman Transparency Group, the Australian National Univer-sity's National Centre for Development Studies and the Asia Pacific School of Economics and Government, the Trade Policy Research Centre in London, the Lowy Institute in Sydney, the Cato Institute in Washington and the East Asia Forum at the Australian National University.

The use of non-tariff barriers to avoid WTO commitments has long been recognised by developing countries, as has the need for a domestic response. As early as 1992, UNCTAD observed: "As tariffs have come down, other restrictions on imports have appeared â€¦ There seems to be a movement towards less visible protectionist measures â€¦ Governments should consider â€¦ the establishment of transparency mechanisms at the national level to evaluate the implications of such measures." In providing protection in these forms, governments have demonstrated that the external disciplines WTO rules place on their conduct are no longer effective. As a result, progress in areas of special interest to developing countries, including our Asian neighbours, has stalled as industrial nations - particularly the EU, Japan and the US - succumb to pressure from their protected producers to avoid the adjustment involved in removing these opaque barriers.

Doha Round negotiations have done little to reduce the problem. While mentoring trade officials in the Trans-Pacific Partnership may help, there is no prospect of Australian officials removing them by negotiating with regulators in other countries.

The government's continuing reliance on external processes - negotiations, agreements and compliance rules - ignores what we have learned from our own experience. Reform of our barriers, initiated by treasurer Paul Keating in 1988, has been pursued -entirely through domestic processes. These bring to public attention (and to the attention of policymakers) their effects on the performance of the economy.

Many, while acting as barriers to international competition, were introduced for reasons that had nothing to do with trade. Some, such as state and local purchasing preferences, act as barriers to domestic as well as international competition. Decisions to remove them can be made only domestically.

Negotiating with domestic regulators in other countries is pie-in-the-sky stuff. And mentor-ing officials in other countries, while helpful, is not a substitute for the approach Australia has taken through a domestic review process. It is only when the focus is on the gains from domestic reform that other governments are likely to recognise, as Keating did, that dismantling these non-transparent barriers will increase the gains from liberalising.

This is relevant for Japan's commitment, prominent in the agreement signed last week, to open markets for Australian services. The commitment will not mean much unless action follows. And that will involve the same painstaking domestic review process as Australia is engaged in.

In view of Australia's experience, Tony Abbott is well placed to open discussions at the G20 meeting about how to deal with the problems these obscure barriers pose for trade reform.

To do so would also build on the domestic response proposed by our developing neighbours in UNCTAD more than 20 years ago.

The strength of this response is that it addresses the problem these opaque barriers pose at its domestic source, while leaving governments in full control of domestic policy.Bill Carmichael is a former industry assistance commissioner.