

Protectionism pressure pill

By Bill Carmichael
June 24, 2014

TREASURER Joe Hockey has said his G20 commitment to lift our rate of growth by two percentage points in five years can only happen if we allow a backlog of structural change to work its way through the economy. Other G20 treasurers face the same issue.

The challenge for the November meeting of G20 leaders in Brisbane is therefore to help member countries promote the structural change needed to achieve their agreed growth target.

Hockey has emphasised the domestic nature of the challenge facing G20 leaders: “We are absolutely committed to increase trade and spur greater competition ... within our own economies ... This means domestic reforms in one country will have positive effects on the growth rates of other G20 members ...”

While the structural changes needed to meet the growth target go well beyond trade policy, as host of the Brisbane meeting of G20 leaders Tony Abbott is well placed to support Hockey’s policy insight — that the way to open world markets is through domestic reform.

And he has a good reason for doing so. If governments continue to approach trade reform as they have been doing, seeking to open external markets through international negotiations while continuing to protect their own industries, the scope for Australia to develop export industries based on our real competitive strengths will be limited.

The greatest obstacle to a better outcome in the Doha Round and in subsequent bilateral negotiations is pressure at home from protected domestic producers seeking to avoid the (nationally rewarding) adjustment involved in liberalising domestic markets.

When governments don’t include particular industries in the coverage of trade negotiations or fail to honour agreements to reduce protection, it is because they have not been able to mobilise a domestic commitment to accept the adjustment involved.

Protected producers have strongly influenced national negotiating agendas and caused governments to minimise their commitments to open markets during negotiations and subsequently to replace the forms of protection negotiated away with less visible forms of protection.

Since the problem arises from domestic influences that operate in the domestic political arena, it cannot be addressed through international agreements and rules.

The challenge for G20 leaders in November is therefore to link the outcome of trade negotiations to the domestic consequences for participating countries. That is the rationale behind the domestic response to protectionism proposed by the Long Study Group and by the UN Conference on Trade and Development in the Uruguay Round, and more recently in a policy brief published by the Lowy Institute for International Policy in Sydney. It involves a domestic transparency process and focuses on the positive domestic reasons for liberalising domestic markets.

The Lowy Institute policy brief was prepared for the G20 meeting in 2009, but became available too late to influence the agenda for that meeting. Nothing has changed since then to meet the G20 commitment on protectionism.

An earlier introduction of the Lowy document this time should help clarify the choice of options to defeat protectionism available to G20 leaders in November. The gains for countries engaging in trade negotiations materialise only when each agrees to reduce the barriers protecting its less competitive industries.

Paradoxically, therefore, the gains — including those resulting from access to external markets — depend on each approaching the negotiating table intent on securing the gains from liberalising its own markets. This is a difficult message to convey. Most Australians have only a passing interest in trade policy, and find it easier to accept that the gains from trade negotiations depend on the skill of our negotiators in winning market concessions.

The domestic transparency response to protectionism is needed to counter the negative influence of domestic groups who see liberalisation as detrimental to their interests.

Their negative influence must be balanced by a wide domestic understanding of the economy-wide benefits from ending protection. So we need to find a way to help governments and voters work this out for themselves, in their own policy environment.

The Lowy Institute policy brief provides a well-documented basis for Abbott to introduce Hockey's domestic response to protectionism, and the logic supporting it, at the G20 leaders' meeting in Brisbane. Its message was widely endorsed — by Australian farm leaders, Australian business leaders and organisations, and state and federal politicians from both major parties. It was also strongly supported by New Zealand farm and business organisations and by its Trade Minister, Tim Groser. This broad support reflects the contribution Australia's transparency arrangements have made to domestic reform.

The challenge for Abbott is to convince his G20 colleagues that the national rewards available from international trade negotiations depend on resisting the demands of protected domestic producers. It also gives him an opportunity to meet the challenge he posed for other leaders at the recent Davos forum – to develop concrete initiatives to restore progress in world trade reform.

In advocating this response to protectionism at the Brisbane meeting of G20 leaders, he would not start with a blank page. Apart from the Lowy policy brief, a substantial body of material on the approach has been published by the Tasman Transparency Group, the National Centre for Development Studies and the Asia Pacific School of Economics and Government at the Australian National University, and the Cato Institute in Washington.

The strength of the response is that it addresses the problem that has stalled progress in world trade reform at its domestic source while leaving governments in full control of domestic policy.