

REASON *versus* EMOTION

Requirements for a
successful WTO round

Papers to
shape your
thinking
on trade
policy

Seattle *1999*

REASON versus EMOTION

Several contentious areas of trade policies need to be resolved within the WTO system — principally agriculture, services, labour and environ-

mental standards and competition policy. But the political willingness for reform is not there. Decision makers, often ill-informed about the basics of trade, which is a problem in itself, do not have the political support to progress trade reform. What is to be done?

This is a summary of papers to straighten out thinking on trade policy reform. They were presented at a seminar held during the Seattle WTO Ministerial.

Clayton Yeutter

former US Trade Representative

Critical Role of the Cairns Group in Liberalising Farm Trade

Guido Di Tella

Minister of Foreign Affairs, International Trade and Worship, Argentina

The Leadership and Institutional Challenge in an Integrating World Economy

Robert E Litan

Vice President and Director of Economic Studies, Brookings Institution, Washington, DC

Moving Towards an Open World Economy: The Next Phase

Victoria Curzon Price

Professor of Economics, University of Geneva

Right and Wrong Ways of Addressing Labour Standards and Environmental Concerns

Brian Chamberlin

Chairman and Managing Director, Euroa Farms Ltd, Pukekohe, New Zealand

Myths and Realities of Assisting Agriculture

Andrew Stoeckel

Executive Director, Centre for International Economics, Australia

Removing the Hidden Taxes on Exports

Hugh Corbet

President, Cordell Hull Institute, Washington, DC

Prospective Shape of a Comprehensive Round of Multilateral Trade Negotiations

Adherence to GATT rules played a major part in the post-war restoration of world commerce and greatly facilitated the liberalisation of international trade in the 1950s and 1960s. But as **Clayton Yeutter** argues, adherence to GATT rules has deteriorated. He points out that international competition has been distorted on an increasingly large scale over most of the past four decades.

Highly distorted markets still exist, agriculture being one of them. The Uruguay Round Agreement on Agriculture was at least a start in liberalising farm trade — the first start ever. It included a commitment to resume negotiations in 1999. Yeutter argues it is now high time 'sacred cows' were confronted. Every country has them — for example, sugar in the United States and the European Community, dairy products in Canada, rice in Japan. To make progress, public policy decisions (whether or not trade is involved) should be objective, handled systematically and based on the most professional analysis available.

The behaviour of the European Union, Japan and others towards agriculture was, and still is, to put it mildly, rather unhelpful says **Guido Di Tella**. He also argues that the excuses brought to the table to preserve the 'European agricultural model' or the likes are too harmful to be taken lightly.

Argentina and other Latin American countries have lost billions of dollars of world market share due to Europe's common agricultural policy. Most proposals and remedies envisaged by rich countries, as they are known at present, do not match the actual challenge. The actual challenge is to secure more even and generalised efforts toward trade liberalisation. In his paper Di Tella calls for an end to the agriculture apartheid in the multilateral trading system.

Each country should have its economists estimate the consumer gains from trade and further liberalisation, and then sell the removal of further restrictions as the equivalent of a tax cut, argues **Robert Litan**.

Litan argues that to encourage change all governments should urgently address how to cushion the impacts on people suffering temporary

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harm from further liberalisation. But trade-specific programs can backfire and adjustment programs should be generic and as much a 'trampoline' as a 'safety net'.

If competition policy is on the agenda, he stresses that primary attention should be given to generic, minimum competition policy standards. But agreeing on minimum competition policy standards will produce few gains for consumers unless those standards are enforced. The primary victims of anti-competitive practices are consumers inside each country.

Litan suggests that the WTO finish the job of liberalising services trade before tackling broader investment issues. When border restrictions on establishing services are dropped, workers in developed countries need not fear a loss of their jobs.

Issues surrounding environmental and labour standards raise fears of a 'competitive race to the bottom' in an ever more open and competitive trading environment. **Victoria Curzon Price** notes that issues surrounding environmental and labour standards are the subject of negotiations in very different forums and present a growing danger of inconsistencies in international law. She argues that there is no case for placing hundreds of conventions into the WTO's lap for supervision and enforcement, unless the intent is to sabotage the WTO itself.

It is essentially up to each society to determine how much 'safety' and 'comfort' it is prepared to pay for. Trade sanctions would be inefficient in enforcing labour and environmental standards, ineffective in practical terms and dangerous for the integrity of the whole WTO system.

Curzon Price argues that, if people are sincere in advocating 'core labour standards', they should do everything possible to promote economic growth in poor, autocratic nations.

The great tragedy of the agricultural policies is that they have cost taxpayers and consumers billions of dollars in the nations concerned and wrecked the economies of many third countries. **Brian Chamberlin** makes an all-out assault on agricultural subsidies and

attacks the myths and realities behind these supports. He finds that the policies of subsidies and protection for farmers have failed in every way: surpluses have been created; the average farmer has captured very few of the benefits; farmers are no younger; food is no safer.

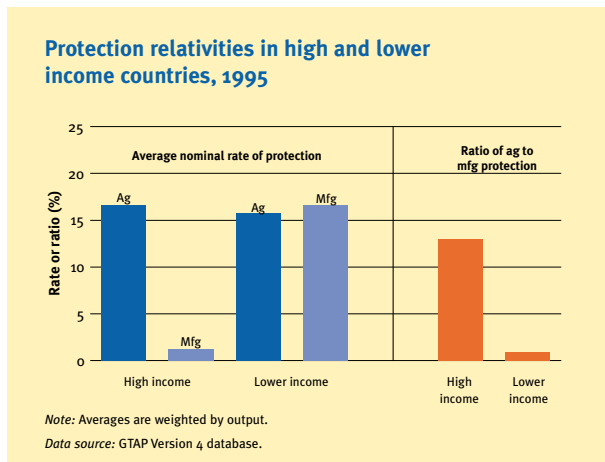
Brian Chamberlin speaks from experience: New Zealand is the only country to have tried using farm subsidies on a major scale and then removing them. His conclusion is that, when we look at the failures of the past and the challenges of the future, it can be clearly seen that we must change to a much freer and fairer trade system for agriculture.

Imports are good and are the whole purpose of trade. Exports are the means to get imports. Trade is a win-win situation but that is not the understanding of the public or how trade negotiators treat imports argues **Andrew Stoeckel**. He notes that we hardly ever see imports being subsidised.

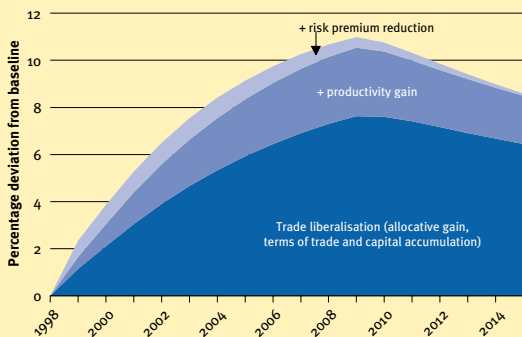
Barriers to trade are a tax on imports that ends up being in effect an export tax, hurting the country itself. It is in a country's own interest to liberalise trade irrespective of what other countries do.

Stoeckel highlights that it is disparities in protection that matters. High income countries protect their agriculture more than lower income countries do. As well, assistance for agriculture in OECD countries has been rising in recent years.

Unless equally powerful political forces are mounted on the side of reform the protectionists will win the day. To change the political economy of reform, negotiations on agricultural trade reform will need to focus on expanding market access rather than reducing domestic supports. Coalitions for reform will need to form if the narrow vested interests are to be over-ridden.



Composition of the potential gain in real consumption from full liberalisation in the Philippines



Data source: Simulations with APG-Cubed model.

Stoeckel presents some new estimates of the gains from trade liberalisation that include capital accumulation, productivity gains and the effect of openness on reducing the risk premiums that countries face. The Philippines provides a good example of how a country gains. The gains for most of the world economy amount to US\$630 billion in 2010.

The unreadiness of the major trading powers to embark on a ninth round of multilateral trade talks is fundamentally a reflection of the state of public opinion in the G7 countries says **Hugh Corbet**. He finds that the mind-set in Washington is not simpatico with the WTO system.

A successful WTO outcome requires political support. As Corbet points out, negotiations can be initiated but not made to yield results — just as a horse can be dragged to water but not made to drink. It is no good engaging in a phoney war now, he says — time should be spent preparing properly for a serious engagement. He highlights the idea of granting responsibility for negotiating changes in agricultural policy to a group of ministers within a country rather than leaving it to the agricultural minister alone. Around the world agricultural ministers tend to hold their own governments and ‘third’ countries hostage until they get what they want.

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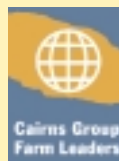
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In 1998 at the inaugural meeting of the **Cairns Group Farm Leaders** they marked the occasion with a seminar on trade policy. The success of that seminar has led them to hold another such meeting, this time to coincide with the Seattle WTO Ministerial to take advantage of the presence of large numbers of trade policy practitioners who will be there.

The seminar has been convened jointly by the **Centre for International Economics** and the **Cordell Hull Institute** on behalf of the Cairns Group Farm Leaders.

These papers have been published by the **Rural Industries Research and Development Corporation** as part of their Global Competitiveness R&D Program. An order form for the publication appears inside.



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