

**AUSTRALIA: A CASE STUDY OF
UNILATERAL TRADE LIBERALISATION**

By

**ROSS GARNAUT
PROFESSOR OF ECONOMICS
THE AUSTRALIAN NATIONAL UNIVERSITY**

Prepared for the Bhagwati Volume on *Unilateralism*.

For two decades to the mid-1980s, Australia, with New Zealand, had the most protected manufacturing sector amongst the members of the OECD. This was a central element in a highly regulated and inward-looking economy. In the late 1990s, Australia, with New Zealand has one of the more open manufacturing sectors in the OECD, perhaps the most open for goods when agriculture and minerals are included, and a relatively and increasingly internationally-oriented overall economy.

This chapter analyses the remarkable re-orientation of Australian trade policy in the last sixth of the twentieth century.

Australian protection and then trade liberalisation are both explained mainly through the domestic debate and political contests. As protection was progressively raised through the first two thirds of this century, it was supported by the dominance of ideas that suggested that protection raised Australian economic welfare. Private vested interests interacted with a favorable climate of opinion to determine the inter-industry pattern of protection and, once protection had been provided to an industry, to lock it in place. Particular political events and sometimes crises, and notable acts of political leadership, influenced the timing, the pace and the extent of protectionism's triumphant march.

Trade liberalisation in the last sixth of the century was preceded by the transformation of elite although not popular opinion towards the view that protection had negative effects on Australian economic welfare. In a new intellectual environment, vested interests in trade liberalisation became more effective in the political process. Vested interests were able to slow but not stop liberalisation in the most highly protected industries: cars, textiles, clothing and

footwear. Discretionary acts of political leadership were important in converting the changed climate of elite opinion into policy reform.

Australia's interaction with the international economy played a role in both the rise and the fall of protectionism, but not through agreements to reduce protection in direct reciprocation of trading partners' liberalisation. Indeed, in the Australian debate, "specific reciprocity" was an instrument of protectionism (Arndt, 1994). More diffuse conceptions of reciprocity were, however, brought to account by forces favouring liberalisation.

Section II describes changes in Australian protection policy in the twentieth century, focussing especially on the recent period of liberalisation. Section III defines the broader context of policy reform in which trade liberalisation was a central part. Section IV discusses the political economy of trade liberalisation in Australia, analysing the interaction of ideas, vested interests and political opportunity. Sections V and VI examine the part played by Australian participation in global (GATT and WTO) and regional (APEC) discussions, negotiations and agreements on trade liberalisation. Finally, Section VII sums up the evidence on unilateralism and reciprocity in Australian trade liberalisation.

II. INTERNATIONALISING A PROTECTIONIST ECONOMY

The Australian Federation was established as a customs union of previously separate states on the first day of the twentieth century. The Federation had two major constituent states: New South Wales with a generation-long commitment to rigorous free trade, and Victoria with a generation-long commitment to protection as a central element in development strategy. The politics of both New South Wales and Victoria were convinced that free trade and protection respectively

were the causes of their own state's considerable economic success and prosperity.

The political parties of the new Federation were organised around the contest over commercial policy. A Free Trade Party, a Protection Party and a Labor Party had similar representation in the first Federal Parliament.

There was no clear national consensus or policy on protection in Australia's first decade. But by the end of the decade the national polity had opted decisively for protection. Within two more decades, the Australian economic profession had supplied a "national welfare" justification for the national preference. The "Australian Case for Protection" was a precursor of the Stolper Samuelson theorem. It demonstrated to the satisfaction of a majority of the Australian economic profession that for Australia, with its unusually rich per capita natural resource endowments, protection increased the number of people who could be employed at the relatively high wages that had been established in Australia (Anderson and Garnaut, 1987).

In the victory of protection in the national policy contest, the influence of vested interests established before the Federation was decisive. The combination of widespread belief, including amongst economists, that protection was in the national interest, with the pressures of vested interests, ensured that the average level of protection for manufacturing industry increased spasmodically but inexorably into the 1960s. Australia shifted from being one of the more open of the advanced economies, to having (with New Zealand) the most highly protected manufacturing sector (Table 1). Australian protection was so high that it greatly reduced imports of the most highly protected products, so that import-weighted

averages of the kind presented in Table 1 underestimated Australia's relative protection levels later in the period.

Not only was the average tariff rate for manufacturing as a whole well above that for other industrial countries but the rates were higher in almost every 2-digit group of manufactured commodities (Table 2).

Manufacturing protection became the keystone of a highly regulated national economy, extending through the externally-oriented agricultural sector in which Australia had strong comparative advantage. It encompassed a unique system of detailed central regulation of determining wages and other conditions of employment, controls on the terms of domestic and international financial transactions, and extensive state ownership and sponsorship of monopolies in the services industries.

The tariff had generally been the principal instrument of Australian protection. The main exception was the World War II and postwar exchange controls, extended in the late 1940s and 1950s into quantitative restrictions on imports, explained on balance of payments grounds. The quantitative restrictions were dismantled by 1959 and mostly replaced by increased tariffs with similar protective effects (Corden, 1996).

The structure of Australian manufacturing protection underwent great change in the 1970s, with modest effect on the average level. First, the Whitlam Labor Government cut all tariffs by 25 per cent in 1973. Second, protection levels were further reduced for most manufactured products. Third, protection levels were greatly increased for the most highly protected industries, most importantly textiles, clothing, footwear and motor vehicles, mainly through the re-introduction

and the successive tightening of quantitative import restrictions between 1974 and 1982.

Table 3 sets out changes in effective protection for manufacturing by subsectors and for agriculture to the eve of the reform period in 1983. Note that from the 25 per cent across-the-board tariff cut in 1973 until 1983 there was virtually no change in average effective protection levels for manufacturing. The small apparent reduction, from an average of 27 per cent to 25 per cent, is entirely the result of a shift in the relative production weights of different sectors over the period.

The decisive dismantling of Australian protection began soon after the election of the Hawke Labor Government in 1983, with the successive removal of quantitative import restrictions on steel, household consumer durables and some items of heavy machinery, and with reduction of tariff rates on a number of items for which protection levels had arisen as matters for policy decision.

Liberalisation was given momentum by far-reaching financial deregulation including the removal of exchange controls in December 1983 and the subsequent depreciation of the real effective exchange rate in the mid-1980s, which reduced the protection provided by the quantitative restrictions on imports of textiles, clothing, footwear and cars. A revision of quantitative import restrictions on cars was announced in 1984, gradually to reduce their protective effect. A similar announcement on textiles, clothing and footwear in 1987 was intended to have a similar effect, but technical miscalculation meant that its actual liberalising content was small.

In May, 1988, the Government announced that all tariffs above 15 per cent would be reduced in annual steps to 15 per cent in 1992. Tariffs between 10 and 15 per

cent would be reduced to 10 per cent. Exceptions were made for textiles, clothing, footwear and cars. By this time, quantitative import restrictions had been removed on all items other than textiles, clothing, footwear and cars. For textiles, clothing and footwear, quantitative restrictions would continue to be eased slightly under the 1987 program. For cars, quantitative import restrictions were abolished with immediate effect, and tariffs reduced by 2.5 percentage points per annum, from 45 per cent in 1988 to 35 per cent in 1992.

A second, more radical and comprehensive across-the-board reduction of protection was announced in 1991, moving Australia into the ranks of low-protection developed countries. The tariff for cars was to continue to fall by 2.5 percentage points per annum, to 15 per cent in the year 2000. For the first time, radical reduction in textiles, clothing and footwear protection was included in the liberalisation program: quantitative import restrictions were abolished; and a schedule of tariff reductions announced to maximum rates of 15 per cent (for most textiles and footwear and 25 per cent (for clothing) by 2000. For all other manufactured goods, the maximum tariff rate was to be reduced to 5 per cent by 1996.

Figure 2 charts the reductions in protection announced during the period of radical reform, 1983-91. The 1991 program has been implemented as announced in its first 7 years. A new Conservative government elected in 1996 confirmed its commitment to announced policy.

While the period of radical reform ended in 1991, the Conservative government in 1997 announced further reductions in protection for the highly protected industries after the completion of the current liberalisation program in 2000. The tariff is to

fall in 2005 to 10 per cent for cars, textiles and footwear, and to 15 per cent for clothing.

The Labor government's reductions in tariffs for cars, textiles, clothing and footwear were accompanied by the introduction of "export facilitation" schemes, which allowed imports free of duty for an amount of the protected goods equal to exports of those same products. The export facilitation arrangements had an economic effect similar to that of an *ad valorem* export subsidy at the tariff rate for the product.

The export facilitation arrangements were probably inconsistent with the WTO subsidies code introduced following the Uruguay Round. Following threats that the United States would take action within the WTO's disputes settlement mechanism, the Australian Government announced in 1996 that it would end the export facilitation arrangements in 2000, replacing them with arrangements that were consistent with the new WTO rules.

III. MANUFACTURING TRADE LIBERALISATION AND GENERAL POLICY REFORM

The Australian Federation in the early decades of this its first century, had been built on the policy pillars of protection, a racially discriminatory immigration policy ("White Australia"), a highly regulated and centralised system for settling labour disputes and determining labour conditions, and extensive government ownership and regulation of the transport, communications and large parts of the services industries (Kelly, 1992).

These certainties of historical policy were challenged late in the century.

Discriminatory immigration policy was modified from 1966 and abolished from

the early 1970s. But the other pillars of early Australian policy remained into the 1980s, when they came under pressures to reform in parallel with manufacturing protection.

Radical reform began in December 1983 with the floating of the Australian dollar and the abolition of all exchange controls — with the deregulation of the financial sector ahead of the real economy, and the external ahead of the domestic economy (Garnaut, 1994). However unconventional the sequencing of reform, the international financial measures spurred a major increase in the external orientation of Australian business, amongst other things with a sharp and large increase in direct investment abroad. The depreciation of the real effective exchange rate that followed in 1985 and 1986 supported the diversification increased export-orientation of Australian production and the exports into manufactured goods and services, alongside the traditional primary commodities. An expectation developed that international financial integration would be followed inevitably by increased external orientation more generally, including through trade liberalisation.

The Labor government's internationally-oriented economic reform was accompanied and supported by increased awareness and official promotion of integration with the rapid growth of economies in Australia's East Asian neighborhood. Such re-orientation of international outlook and foreign policy was in one sense an inevitable accompaniment to an historic shift in global economic and political weight towards the Western Pacific. It was not inevitable, however, that the growth of East Asia should be embraced as an opportunity to raise Australian incomes through increased trade and specialisation in line with Australia's comparative advantage. That it was so embraced provided major support for internationally-oriented reform.

The Australian protection debate had always focussed mainly on the manufacturing sector. Over time, however, and most comprehensively after the Second World War, the general policy preference for protection interacted with the usual processes of political economy to generate “all-round protection”, in which the agricultural sector was compensated for manufacturing protection through special assistance. The reform of manufacturing protection in the 1980s was accompanied by removal of most agricultural assistance. Australian with New Zealand agriculture is the most open to international market conditions of any in the developed countries.

Trade liberalisation, and the expectation that this would continue to near free trade, introduced powerful pressure for reform of the other pillars of early Australian policy. Internationally-oriented businesses came to realise and eventually to accept that no industry or firm could expect its Australian production of tradeable goods and services to survive in the new circumstances unless it was internationally competitive. The increased international-orientation made them much more aware of the gap between world’s best practice in the general economic and regulatory environment and in supply of inputs, and the conditions under which they were required to operate in Australia. Business people who had once been tolerant of inefficient regulatory arrangements and supply of inputs within the context of “all-round protection” from which they drew a share of benefits, came to see these inefficiencies as threats to their own survival. Business awareness of the costs of inefficient policy environment spread to associated trade unions and the general community, creating conditions for widespread deregulation and privatisation in transport, communications, energy, banking, efficiency-raising taxation and general regulatory reform, and the beginnings of reform of labour market arrangements.

The greater international-orientation of the Australian economy heightened awareness of the value of stable macro-economic conditions, including low inflation and nominal long-term interest rates.

The whole reform program was associated with a marked shift in Australia's economic performance relative to other developed countries. Australia's total factor productivity growth in the 1990s has been well above the average of the OECD members, after having lagged behind through the two preceding decades (Figure 3).

IV. THE POLITICAL ECONOMY OF TRADE LIBERALISATION

What was the cause of the historic transformation of Australian trade policy in the 1980s and 1990s?

The background to the trade liberalisation of the 1980s extends back to the 1960s, which witnessed the beginnings of change in elite (but not popular) opinion about whether protection was in the national interest.

The change in the climate of elite opinion on protection can be traced to work by academic economists through the 1960s. Economists began to examine closely and to publish studies on the costs of the highly differentiated Australian tariff. At first, the main reform advocated was towards a uniform tariff. By the late 1960s, the economic profession was advocating import liberalisation with near unanimity and with increasing technical sophistication (Corden, 1967, 1968, 1996; Lloyd 1988; Anderson and Garnaut 1987; Garnaut, 1994).

The new views of the Australian economic profession gradually influenced opinion in the bureaucracy, commencing with the Tariff Board. The Tariff Board was an advisory body established in the 1920s to place a buffer between protection policy making and vested interest groups in recognition of the corruption of the political process associated with unconstrained pressure by private interests. The Tariff Board was established to implement the established national policy of protection, and its views in its first four decades differed little from the general community's. The first breach in the protectionist line occurred when an economist Chairman, Sir Leslie Melville, resigned in quiet opposition to government policy in 1962. The importance of individual views and the character of statutory officeholders for the direction of policy was underlined following the appointment of G.A. Rattigan as chairman in 1963. Rattigan was converted by the evidence to a freer trade position and made the public hearings and reports of the board important vehicles of public education. By the end of 1960s, the financial press, led by the *Australian Financial Review*, was given extensive coverage to the Tariff Board's heresy and was itself playing a major role in publicising the case against protection. The Tariff Board perspective gradually became more influential in other areas of government.

The near consensus of elite opinion in support of reduced protection in the early 1970s was not reflected in general public opinion. The polls showed (and continue to show) substantial majorities in favour of protection. Interestingly, despite persistent support for protection in the polls, the Whitlam Labor government's decision to reduce all tariffs by 25 per cent in 1973 received large majority support at the time, most strongly among Labor Party voters, who otherwise tended to be somewhat stronger supporters of protection. This illustrates the autonomy of political leadership on protection policy issues, at least

at times of consensus across the leadership of the major parties and of buoyant economic conditions.

Through the late 1960s and 1970s, lobbying by groups with vested interests in protection had become more overt and strident. Protectionist interests had not needed to be strident in earlier times, when the climate of opinion had been strongly supportive. Their more open participation in the debate was partly a reaction to the emergence in public trade policy discussion of groups with an interest in trade liberalisation. The changes in parliamentary leaders' attitudes, the information made available to the public by the Industries Assistance Commission (successor to the Tariff Board from 1974), and the improved understanding within the economics profession on the effects of manufacturing protection on farm incomes encouraged farm industry groups into the public debate, especially the National Farmers' Federation, founded in 1977. The mining sector, perhaps mindful of its political weakness and vulnerability, and comprising large corporations with deep interests in government mineral leasing and taxation policies, was late to enter the public political fray. In 1982, five mining companies without large manufacturing assets argued for movement toward a low, uniform tariff.

The established protection for the textiles, clothing, and footwear and automobile industries was so great that enterprises in them were able to invest heavily in political activity to preserve it. The establishment of strong industry organisation in defence of protection lowered the costs of new political mobilisation. Developments in the wider economy were introducing pressures for these manufacturing industries to decline more rapidly than others in the recession of the mid-1970s and early 1980s, and increased incentives and established a congenial "fairness" environment for the defence of established protection.

In addition, fortuitous political circumstances helped the cause of high protection for textiles, clothing, and footwear (Anderson and Garnaut 1987, chapter 6).

International practice in these industries (especially textiles, clothing, and footwear, but also automobiles) was less liberal than in other areas of manufacturing, reflecting the rise of new centres of competitiveness in East Asia, outside the North Atlantic economies that were most influential in setting the international rules. International practice eased the introduction of quantitative restrictions on imports of these commodities, the protective effect of which could then rise with changes in economic conditions without new government decisions. Through all these influences, it was the powerful incentive of highly protected industries to invest heavily in political influence that was decisive in raising protection for textiles, clothing, footwear, and automobiles against the general trend in the years preceding radical trade policy reform.

Writing before the election of the Labor government in early 1983, Kym Anderson and I drew five main lessons from Australia's experience with protection policy. First, both the public and private interest theories of protection policymaking are relevant: neither on its own can explain Australian policy. Second, political leadership can exercise decisive influence over policy outcomes at certain moments in history. Third, protection is extremely difficult to remove once it has been granted. Fourth, sudden increases in import penetration tend to trigger protectionist responses, even in a climate of opinion generally unfavorable to protection. Fifth, while export interest groups have not been major actors in protection policymaking for most of Australia's history, they have been influential when they have been active (Anderson and Garnaut 1987). We thought in 1983 that there would be little change in the average level of manufacturing protection

“in the immediate future”. Working for lower protection were the change in political and intellectual leadership opinion in favor of a more open economy, the rise in countervailing power from export interests, and the desire to build closer and more cooperative relations with Australia’s East Asian neighbors. The increasing understanding of the effects of protection on export performance had brought farm and mining industry groups into the policy debate, and the increasing understanding of the effects of protection on the interstate distribution of income had brought in the principal exporting states.

Two factors were working against freer trade at that time. Long-term industry plans introduced by the Fraser government greatly increased the political costs of reducing protection before 1988 (for textiles, clothing and footwear) or 1992 (automobiles). And the deep recession of the early 1980s was unfavorable to early import liberalisation.

We concluded that the prospects of future trade liberalisation would be enhanced by further dissemination of information about the economic effects of protection; by compensating the states that benefited from protection for the effects of liberalisation through Commonwealth-state financial arrangements; by public funding for political parties; and by Australian participation in discussion of trade liberalisation within the Asia Pacific region.

The Australian move toward free trade in the 1980s and 1990s is comprehensible in the context of the lessons that we drew in 1983 from earlier Australian experience. Bob Hawke as Labor prime minister held the personal belief that closer integration into the international economy, through trade liberalisation and other means, was a necessary element of economic reform to build a modern economy in Australia. This was a personal view shared by other members of his

Cabinet, including his Treasurer and eventual challenger and successor, Paul Keating. Trade liberalisation did not feature in the program upon which the government was elected, but Hawke's consistent public position from the early days of his government was that sustained economic growth in Australia required reductions in protection, and that these reductions would be implemented as employment strengthened during the economic recovery. Hawke's perspective on trade policy was reflected in decisions on each of a series of industry policy issues that arose in the early years of the government, prior to the general trade liberalisation decisions of 1988 and 1991.

Hawke's political style involved consultation among a wide array of interest groups, extended public discussion, and dissemination of information well in advance of decisions for change. The National Economic Summit Conference, discussion in the new Economic Planning Advisory Council and the Australian Manufacturing Council, speeches and exhortations by the prime minister himself, and the publication of reports to the government explaining the need for change (including the author's *Australia and the Northeast Asian Ascendancy* in 1989) were all instruments of public education, helping to prepare a climate of public opinion that expected and favored trade liberalisation.

During the Hawke years, there was considerable discussion of and some movement toward reduction of the earlier bias in the allocation of Commonwealth revenues toward the less densely populated "export states". The governments of these states, especially Western Australia, moved more strongly than in earlier years to argue the case for compensatory reductions in protection.

Public funding of political parties was introduced at the Commonwealth level, although its effect on interest group pressures was diminished considerably by escalation in the costs of election campaigns.

It was a theme of the Hawke government that close relations with East Asia and integration into Australia's Asia Pacific environment were important elements of the reform program. It was part of the case for reducing protection that significant opportunities for expanding exports were emerging from economic growth in East Asia, including export of nontraditional services and manufactured goods. Reductions in protection would make Australia's most productive industries more competitive and better able to take advantage of the East Asian opportunity. This was the position argued in *Australia and the Northeast Asian Ascendancy* (Garnaut 1989), the first contribution to mainstream public debate in Australia since the first decade of the Federation to argue the case for free trade rather than simply for lower protection.

The most important change in interest group behavior, towards the emergence of economywide trade union and business groups, was encouraged by the Hawke leadership style. The Australian Council of Trade Unions became more influential, relative to the individual unions that were its constituents, in public policy discussion and in consultation with government. The economywide Business Council, which included representatives of mining and service industries, became the most influential of the business groups. Economywide perspectives gave greater weight to the national interest in liberal trade, significantly constraining the political effectiveness of the advocacy by union and business groups of continued or increased protection for textiles, clothing, footwear, and automobiles. In the new climate of opinion, more favourable to liberal trade, the

National Farmers' Federation and the Australian Mining Industry Council became more active in advocacy of trade liberalisation.

How important were general economic conditions to the transformation of Australian trade policy?

Australian economic reform responded to the long-term deterioration of relative economic performance that had first become apparent to close observers in the 1960s. There was a sense in which the government was responding to a crisis, which became more severe with the collapse of the world system of agricultural trade in the 1980s. The crisis, however, was spread over time, and there was no inevitability that the problems would be addressed when they were, in the mid-1980s, rather than, say the 1970s or the 1990s.

The economic problems that were felt politically as crisis were short-term macro-economic problems — the recession of 1982-83 and 1990-91 and the current account deficit that followed the collapse in primary export prices in 1985-86. The instinctive Australian response to macro-economic crisis, based on historical precedents since the 1930s, was not to pursue internationally-oriented or market-oriented reform, but rather to stimulate domestic demand (for recession) and to increase protection and exchange controls (for balance of payments weakness). Government used the crisis atmosphere of 1983 and 1986 to advance the reform effort, but there is no sense in which the shape of the reform program itself was determined by crisis.

The rapid growth in employment from 1983 to 1990 validated the reform program in the eyes of the electorate, and especially within the government's own (social democratic) constituency. The growth in employment was not mainly a benefit of

reform — the main benefits would come later. There were, however, some links between employment growth and reform. Wage restraint through the 1983-85 recovery contributed to employment growth, and the depreciation that occurred under floating exchange rates in the terms of trade in 1985-86, eased adjustment. Financial deregulation contributed in an unfortunate way to employment growth by helping monetary expansion to get out of hand in 1987 and 1988, fueling unsustainable boom conditions and setting the scene for the 1990-91 recession. Recession, when it came, was moderated somewhat in its effects on employment by the growing importance of the manufactured and service exports that were emerging from economic reform: domestic demand contracted proportionately more in 1990-91 than 1982-83, but manufacturing employment rather less.

Recession from mid-1990 reinforced the community mood against radical reform, but not before the Government had announced the largest trade liberalising step of all at the cyclical low point in March 1991. More important for policy, recession politics introduced powerful political incentives to split the elite consensus on trade liberalisation.

The Labor government's trade policy reforms had been facilitated greatly from the mid-1980s by the support of the leadership of the conservative opposition parties. The transformation of the opposition from conservative (status quo) to liberal trade policies, under the influence of the more general change in elite opinion, is in itself a large and import phenomenon (Kelly, 1991). It went so far that in the early 1990s, it was a new Labor Prime Minister, Paul Keating, who broke the rhetorical consensus in support of trade liberalisation, leaving the Opposition closer to the Labor Government's earlier positions.

The Government's change in stance was opportunistic, responding to the Oppositions' strong endorsement of and commitment to completion of the Government's liberalisation program, and to moving beyond announced policy to free trade by 2000. A majority of popular opinion had always opposed trade liberalisation, and Prime Minister Keating, under strong electoral competitive pressure, sought to mine a political lode that the leadership of both parties had denied themselves in the national interest since the mid-1980s. Much was made by Keating of the damage that would be done to manufacturing industry if the residual protection, after completion of the Labor program, were removed.

But the Government's policy retreat was tactical and rhetorical: the only retreat on real policy was the removal of developing country preferences for newly industrialised economies in 1992. Previously, at least some influential participants in the policy discussion had expected the preferences to be removed only by the completion of the liberalisation process after 2000.

The Keating Labor Government unexpectedly won the 1993 election. This defeat ended the Conservative Opposition's dalliance with radical liberal policies on economic policy, including on trade liberalisation. When the Howard Conservative Government won office in the 1996 election, it was on a program of completing the Labor Government's trade liberalisation to 2000, but otherwise of silence on this issue.

The new conservative consensus on trade policy across the political leadership ensured that there was no revival of radical trade liberalisation. But the survival of elite comprehension that open trade was in Australia's national interest, and the Labor Government's commitment to the APEC goal of free trade by 2010, now endorsed by the new government, together ensured that there was some forward

movement. Hence the modest further reductions in 2005 for tariffs in the most highly protected industries.

V. DIFFUSE RECIPROCITY: AUSTRALIA AND THE WTO

Australia's slide into deep protectionism, and then reform to near free trade, was little influenced by failure and success in bargaining with trade partners for reciprocal liberalisation. To the extent that official relations and negotiation with other countries influenced Australian policy, it was indirect. To the extent that "reciprocity" played any role, either negatively or positively, it was diffuse rather than specific.

Australia was an active member of the GATT at its formation and in its first years, seeking access to international markets for its agricultural products, and policy autonomy to retain its manufacturing protectionism. The GATT's failure adequately to bring agriculture within its rules, and its tolerance of the proliferation of European and North American distortions of agricultural trade in the 1960s, provided a convenient pretext for Australian governments to stand aside from effective participation in the early rounds of multilateral trade negotiations. Australia, with New Zealand, was alone amongst developed countries in remaining outside the manufacturing trade liberalisation and expansion of the early postwar decades. Australian governments held back on criticism of the GATT's tolerance of increasing agricultural protectionism, lest it draw attention to Australian manufacturing trade policy.

The more differentiated Australian climate of opinion on protection in the 1970s, and realisation of the high and increasing cost of other countries' agricultural protectionism, drew Australia into the Tokyo round of multilateral trade negotiations. Australia offered to lower its bindings on many items which were

bound at well above current tariff rates. Australia lowered tariffs on a range of items identified as having “water in the tariff” — in Australian parlance, items where protection kept the domestic price much (and for the supporters of protection, unnecessarily) above the cost of import-competing production.

The Government explained its Tokyo Round offer to the Australian Parliament as having no effect on Australian production. The explanation was correct at the time. But there were virtues in these moves that were hidden to business, the community and probably the Government at the time: the removal of “water in the tariff”, and tighter bindings, had some real liberalising effect in later years when changed macro-economic circumstances generated appreciation of the real effective exchange rate.

Australia did not always take its GATT tariff bindings seriously. When senior Australian GATT trade negotiators asked the Government to hold back on unilateral liberalisation in 1984, so that they would have “coin” for negotiation in particular with the European Community, they were advised that the Government would be announcing easing of automobile quantitative import restrictions a few months hence. If the negotiators could buy any market access within these months, that would be to the good. At the time, the Australian automobile tariff of 57 per cent was not binding at the margin, because quantitative restrictions had a tariff equivalent closer to 100 per cent. The negotiations subsequently reported the European response to Canberra: what did Australia have to “sell”, until the tariff had returned to the 35 per cent at which they had been bound in the early 1960s?

The Hawke Labor Government’s intention to reduce protection changed Australia’s approach to multilateral trade negotiations. In December, 1983, the

Prime Minister in a speech in Bangkok called for a new round of multilateral trade negotiations, which would address exceptions to the multilateral trade rules that had had high costs for Australia, Thailand and some of their Western Pacific trading partners: agriculture and textiles. This became a theme of active Australian multilateral trade diplomacy in the lead-up to and through the Uruguay Round. Following the Bangkok speech, senior trade officials from Western Pacific members of the GATT met a number of times to discuss regional interest in a new multilateral round. One practical consequence was Japanese acceptance, at least within the Foreign Ministry, that agriculture would need to be brought within the GATT rules. Another was realisation within the ASEAN countries, that there were potential gains from active participation within multilateral trade negotiations for the first time.

A variation on this theme was the Australian initiative in the formation of the Cairns Group of agricultural exporting countries. The Cairns Group was influential in securing a place for and a substantial outcome on agriculture in the Uruguay Round.

Australian policy had been liberated by commitment to reduce protection as a matter of domestic policy. Australia made Uruguay Round offers substantially in excess of what turned out to be necessary in settlement of the Round. But the offers comprised lower bindings on tariffs, reductions in which had already been announced entirely in the domestic policy context.

The only important steps in Australian trade liberalisation over the period of reform that were part of a reciprocal agreement, occurred in the context of the Closer Economic Relations Agreement with New Zealand. A trade diverting free trade agreement between Australia and New Zealand in the 1970s, NAFTA, had

made exceptions of all important areas of potential trade creation. NAFTA was replaced by the Closer Economic Relations (CER) agreement in 1983, which soon provided for clean free trade in goods, without exceptions. For some agricultural goods, notably dairy products, New Zealand was the lowest cost potential supplier to Australia. The CER was therefore genuinely trade creating in this and some other areas.

While specific reciprocity was of minor importance in Australian liberalisation, the Hawke Government's political strategy allocated a substantial place to participation in the WTO and, after its formation under Australian leadership, in APEC. Support for trade liberalisation required confidence that exports from Australia's internationally competitive industries could expand. Participation in global and regional trade policy discussion was seen as being helpful in underlining and extending the reality of substantial international market opportunity. There was enough expansion of Australian trade opportunity for this political purpose to be served in the Uruguay Round outcome.

VI. DIFFUSE RECIPROCITY: ASIA PACIFIC ECONOMIC CO-OPERATION

Australia was a leading participant in discussion of Asia Pacific economic co-operation from the earliest days. It hosted the founding meeting of the Pacific Economic Co-operation Council (PECC) at The Australian National University in 1980, and PECC became the focus of discussion of the role and *modus operandii* of more formal regional co-operation. The first APEC meeting was suggested by Australian Prime Minister Hawke in 1989, and convened in Canberra later in that same year. Australian Prime Minister Keating was the first advocate of raising APEC meetings to Heads of Government level, a suggestion taken up by President Clinton in 1993 in Seattle. Keating was a strong advocate of establishing free and

open trade in the Asia Pacific region, in the process leading to the Bogor Declaration in 1994.

APEC developed within a conceptual framework different from the regional economic arrangements in Europe and North America. Unilateral liberalisation had been the principal path of trade reform in the Western Pacific economies that became members of APEC: Australia, New Zealand, the (then) six ASEAN states, Hong Kong, China and (although in these cases with more cross-currents) Japan, Taiwan and Korea.

There was little interest and no inclination in the Western Pacific to turn APEC into a conventional free trade area, ultimately meeting the requirements of Article 24 of the GATT, with binding agreements on a schedule of trade liberalisation, towards substantially free trade on a relatively short timetable. The first objective of APEC had been to build awareness of the implications of the deep integration that had already occurred within the region through market forces taking advantage of opportunities created by unilateral bilateralisation. This would introduce constraints on unilateral policy action in individual economies that would reduce the gains from trade and investment. A related objective was to expand knowledge of the extent of the opportunities that were emerging from trade liberalisation and expansion within the region. Such knowledge, brought to account in the political economy of trade policy in each members, would support the efforts of individual governments to continue liberalisation at home.

The guiding idea of APEC was *open regionalism* which, to the extent that it encompassed trade liberalisation, was based on reduction of official barriers to intra-regional trade without discrimination against outsiders (Elek, 1992; Garnaut, 1996; Drysdale, 1998).

When in 1994, under the leadership of Indonesia's President Soehareto, the ambitions of APEC were raised with the Bogor Declaration, a novel approach to "free and open trade in the region" had to be developed. Free trade was to be achieved by 2010 for developed countries and 2020 for developing countries by the unilateral actions of member states. The *modus operandus* of APEC trade liberalisation was developed in subsequent leaders' meetings in Osaka in 1995 and Manila in 1996. Each economy would present an individual action plan for its own liberalisation a number of years ahead. Because there were no binding agreements to meet the requirements of Article 24 of the WTO, liberalisation was to be on a non-discriminatory basis, under Article I of the WTO. This process came to be known as "concerted unilateral liberalisation". From the Manila meeting, non-binding agreements to liberalise trade in individual sectors — legal under the WTO only because they were to be implemented on a most favoured nation basis — became an important means of moving forward, and provided impetus to new global sectoral liberalisation agreements within the WTO.

There were no binding agreements backed by judicial processes for resolving disputes. The sanctions were peer pressure, and realisation that a process that would yield large benefits if pursued to a successful conclusion, would break down if too many economies appeared not to be making progress towards the agreed end points.

In a number of Western Pacific economies, the informal, non-binding agreements within APEC provided important support for domestic trade policy reform. President Soeharto's leadership of the meeting that formulated the declaration of open trade and investment was important background to major, forward-looking Indonesian liberalisation packages in 1995 and 1996.

President Ramos of the Philippines used the hosting of the APEC Summit late in 1996, to secure Congressional support for a radical trade liberalisation program, lesser variants of which had been promoted by his predecessors from time to time over the previous quarter century, but defeated by vested interests through the domestic political process. The Philippines, a high protection economy as late as the early 1990s, is now committed legally to a maximum manufacturing tariff of 5 per cent by 2004. This is a clear example of the power of informal processes: President Ramos's closest economic adviser on these matters has testified that progress along these lines would have been defeated by nationalist reaction in Congress if it had been put forward as a binding commitment within the WTO (Estanislao, 1997).

Australia's APEC commitment to free trade by 2010 turned out to be crucial in maintaining momentum in domestic liberalisation in the less congenial environment of the 1990s. The Keating government's protectionist rhetoric from 1992 never led to serious backsliding from the 1991 liberalisation program, significantly because of the Prime Minister's personal association with the Bogor Declaration. Australia's "individual action plan" presented to the Manila APEC meeting in 1996 included the completion of the 1991 liberalisation program, which was to continue to reduce tariffs on the announced timetable until 2000. Industry interests applied great pressure to the new Conservative Government on its election in 1996 to modify the announced liberalisation program, but were told crisply that this was impossible because commitments had been made within the APEC context. The need to remain credible on the general APEC commitment to free trade by 2010 was a major and probably a crucial element in the Government's decision to announce in 1997 that there would be further reductions in tariffs on textiles, clothing, footwear and motor vehicles in 2005.

Interestingly, the role of APEC in constraining backsliding from trade liberalisation induced reaction from protectionist interests that assumed elements of reciprocity in the APEC program. “We are the only virgins in the brothel”, became a catchcry of resistance to continued liberalisation. Textiles and automobile producer interests argued for delaying further liberalisation until it could be demonstrated that other APEC members were making similar progress towards free trade. Paradoxically, a program of trade liberalisation that had been entirely unilateral in its origins, came under attack when elements of “diffuse reciprocity” were introduced into it through APEC. So far, the attack has been unsuccessful.

Future progress towards the APEC goal of free trade in the Asia Pacific on a most favored nation basis eventually will need to reconcile Western Pacific commitment to unilateral liberalisation, informal and non-binding agreements, and now “concerted unilateralism”, with North American traditions of reciprocity. Initially, the reconciliation can come through Western Pacific acceptance that the United States and Canada are more open economies than most (but not all) others in APEC, and that conscientious implementation of their Uruguay Round represents major liberalisation of importance to other APEC members.

Eventually, the APEC goals will only be approached by Western Pacific members continuing to make large progress through unilateral processes; through the United States political leadership responding to realisation of this progress through recognition that relatively free trade in the Asia Pacific is a sufficiently realistic objective for it to join with a serious free trade commitment of its own; and for the APEC commitment of free trade by 2020 then to be taken into the WTO in search

of an agreement on global free trade (at least in goods and major services) by 2020 (Garnaut, 1998).

VII. UNILATERALISM, RECIPROCITY AND AUSTRALIAN LIBERALISATION

The dismantling of Australia's high protection is overwhelmingly a case of unilateral liberalisation. It was undertaken because the leading figures in Australian policy discussion and decision had come to the view that open trade was in Australia's interest, whatever policies were adopted by other countries.

Specific reciprocity was important only at the margins, in particular in relation to a few items of agricultural trade within Closer Economic Relations with New Zealand.

A more diffuse conception of reciprocity played some role in support of trade liberalisation. Participation in the Uruguay Round of multilateral trade negotiations and APEC helped to focus the Australian polity's attention on opportunities for expansion of industries in which Australia had comparative advantage, alongside the inevitable contraction of some high-cost industries in the process of import liberalisation. The progress in the Uruguay Round and in unilateral liberalisation in the Western Pacific sustained the credibility of this approach.

At various historical points, the absence of specific reciprocity was used by protectionist interests to resist liberalisation. This resistance was successful in the 1950s and 1960s in using other countries' agricultural protectionism to keep Australia out of effective participation in multilateral trade negotiations. It was

unsuccessful in the 1990s in reversing liberalisation in the most highly protected industries.

Specific reciprocity will play a role in determining the prospects for free trade in Australia early in the next century, mainly because it will be important to United States participation in Asia Pacific trade liberalisation. The constraints on and ethos of Asia Pacific Economic Co-operation mean that APEC itself will wither if attempts are made to transform it into a standard, discriminatory free trade area. But free trade in Australia is more likely in the context of continued progress towards free trade within APEC. United States participation in APEC free trade will require progress towards global free trade within the WTO. In the meantime, progress within APEC will strengthen the base for a global “free trade” round, just as it did in 1996 for global, sectoral liberalisation agreements within the WTO for information technology and telecommunications products.

Table 1. Average manufacturing tariff rates, selected industrial countries, 1902, 1913, 1925 and 1970 (%)

	1902	1913	1925	1970 ^b
Australia	6	16	27	23
Belgium	13	9	15	na
Canada	17	26	23	14
Denmark	18	14	10	NA
EEC - 6 ^a	na	na	na	8
France	34	20	21	na
Germany	25	13	20	na
Italy	27	18	22	na
Japan	10	20	13	12
Netherlands	3	4	6	na
New Zealand	9	na	na	23
Norway	12	na	na	11
Sweden	23	20	16	7
Switzerland	7	9	14	3
United States	73	44	37	9

na Not available.

a Belgium, France, West Germany, Italy, Luxembourg and the Netherlands.

b The 1970 estimates are not comparable with earlier estimates because the earlier estimates used f.o.b. export prices of other countries as indicators of boarder prices, instead of c.i.f. import prices for the country concerned. Thus the earlier rates are somewhat overestimated. This has little effect on the inter-country comparison for each year, however.

Source: League of Nations, *Tariff Level Indices*, Geneva, 1927, as quoted in Little, Scitovsky and Scott (1970, p.162-3), and General Agreement on Tariffs and Trade, *Basic Documentation for the Tariff Study*, Geneva, 1972.

Reproduced from *Australian Protectionism, Extent, Causes and Effects*, Anderson and Garnaut, Sydney, 1987.

Table 2. Tariff rates by manufacturing sub-sector, selected industrial countries, 1975^a (%)

ISIC GROUP	Australia	Canada	EEC-9 ^c	Japan	Sweden	US
Food, beverages and tobacco	10	6	8	22	5	5
Textiles	24	19	8	4	10	13
Wearing apparel	44	25	16	18	13	27
Footwear and leather ^b	28	13	6	12	7	12
Wood, wood products and furniture	16	11	4	3	3	5
Paper, paper products, printing and publishing	5	8	6	5	2	1
Chemicals, petroleum, coal, rubber and plastic products	7	11	8	8	4	3
Non-metallic mineral products	15	12	8	6	6	12
Base metals	5	7	5	4	4	5
Fabricated metal products	20	14	8	12	5	8
Machinery	12	8	8	12	6	6
Transport equipment	23	3	8	11	7	4
Other manufacturing	9	9	5	11	4	8
Total	13	8	8	11	5	6

a Weighted average of MFN tariff rates for all items in each industry, using weights based on the value of imports of the country concerned.

b Rubber footwear is included with other rubber products.

c EEC-9 comprises the 6 member countries listed in footnote a of Table 1 plus Denmark, Ireland and the United Kingdom.

Source: Compiled by information supplied by the GATT, as reported in Industries Assistance Commission (1978, Table 1.3.3).

Reproduced from *Australian Protectionism - Extent, Causes and Effects*, Anderson & Garnaut, 1987.

Table 3. Average effective rates of assistance to Australia's manufacturing sub-sectors and to agriculture, 1968-69 to 1982-83^a (%)

	1968-69	69-70	70-71	71-72	72-73	73-74	74-75	75-76	76-77	77-78	77-78	78-79	79-80	80-81	81-82	82-83
	1971-72 production weights					1974-75 production weights					1977-78 production weights					
Food, beverages & tobacco	16	17	18	19	19	18	21	20	16	13	10	14	13	10	9	9
Textiles ^b	43	42	42	45	45	35	39	50	51	57	47	47	51	55	54	54
Clothing & footwear	97	94	91	86	88	64	87	99	141	149	141	143	135	140	204	220
Wood, wood products and furniture	26	27	26	23	23	16	18	19	18	18	18	17	15	15	14	13
Paper & paper products, printing	52	50	50	52	51	38	31	30	30	29	24	26	25	25	25	24
Chemicals, petroleum & coal products	31	31	31	32	32	25	23	23	21	18	19	19	17	15	124	14
Non-metallic mineral products	15	15	15	14	14	11	11	10	7	5	5	5	5	4	4	4
Basic metal products	31	30	28	29	29	22	16	16	15	14	10	10	9	10	11	11
Fabricated metal products	61	60	60	58	56	44	39	38	34	32	30	31	30	31	31	27
Transport equipment (motor vehicles and parts) ^b	{50	50	51	50	51	39	45	59	54	61	48	53	59	63	71	72
Other machinery & equipment	{50			49		38	54	73	67	79	73	81	89	96	108	110
Miscellaneous manufacturing	43	43	43	44	39	29	24	25	22	21	20	20	21	20	21	18
	34	35	35	32	31	24	27	26	25	27	30	30	29	28	27	25
Total manufacturing	36	36	36	35	35	27	27	28	27	26	23	24	23	23	25	25
Total manufacturing less textiles clothing, footwear and motor vehicles & parts	32	32	32	32	32	23	23	22	20	17	17	17	16	16	16	15
Total agriculture			28	21	14	13	8	9	9	13	13	10	7	8	9	16

a The forms of assistance covered by this table include tariffs, quantitative restrictions on imports, production and export subsidies, and special pricing schemes for sugar and petroleum products. The assistance provided by the motor vehicle local content scheme is included only in the estimates based on 1977-78 production weights. Forms of assistance not taken into account include government purchasing practices and assistance from State governments, for which some descriptive details are provided by the Industries Assistance Commission (1981e, Chapter 2 and Appendices 2.2 and 2.3)

b Estimates of assistance afforded by import quotas from 1979-80 are based on a survey of quota transfer prices and on official tender sale prices, unlike those for previous years which are based on price comparisons

Source: Industries Assistance Commission (1976a, 1980a, 1983a, 1985a)

Reproduced from *Australian Protectionism - Extent, Causes and Effects*, Anderson & Garnaut, 1987.

Figure 1

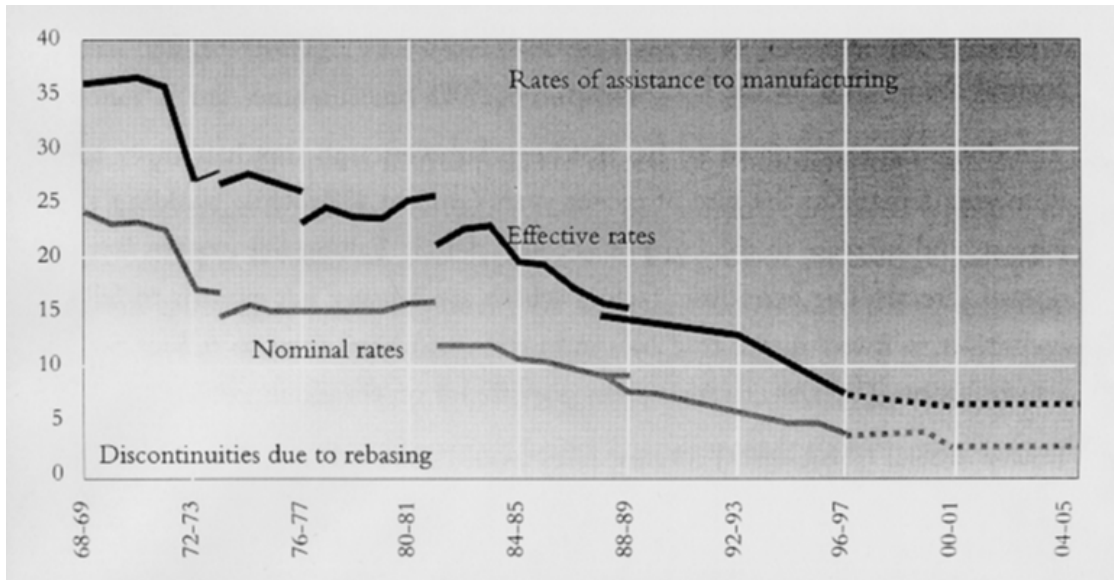
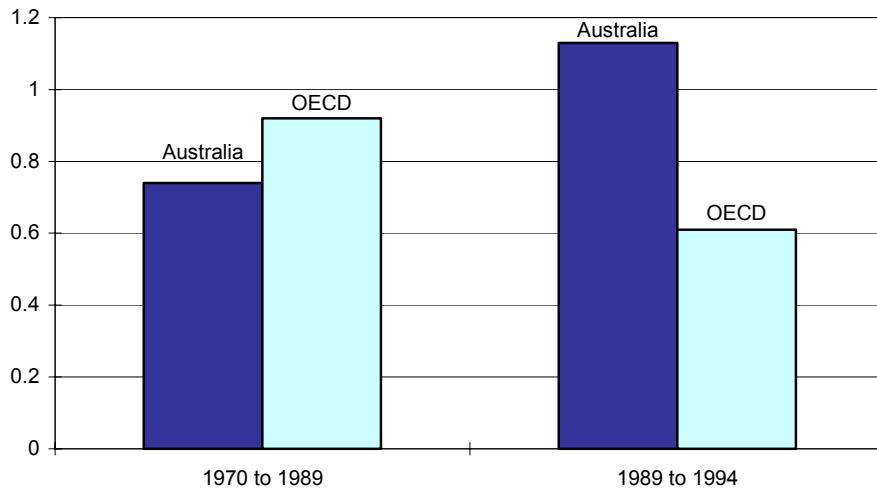


Figure 2: Australia's comparative productivity growth rates, 1970 to 1994 (per cent)



Source: Industry Commission, 1997. *Assessing Australia's Productivity Performance*, AGPS, Canberra: Figure 3.

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