

# Beyond the GATT

*Winton Bates reviews Towards Freer Trade Between Nations edited by John Nieuwenhuysen (CEDA Study, Oxford University Press, Melbourne, 1989).*

Something seems wrong with the title of this book. Moving towards freer trade is like walking across the room to open the door, and stopping before you can reach the handle. Why not 'Towards free trade between nations'? That would be consistent with the editor's claim that 'the message of the book and of my proposals for change are the advantages of free trade, and the need for careful but deliberate pursuit of the goal of trade liberalization among nations' (p.12).

The book grew from a 1986 international conference in Madrid where the Committee of Economic Development of Australia (CEDA) and many similar associations were represented. It is published by CEDA, with sponsorship from Telecom Australia, and has a foreword by the Prime Minister.

Several contributors think protectionist policies stem from the power of wrong ideas as well as pressures brought to bear by interest groups. These ideas are described by David Henderson as pre-economic, nationalist and mercantilist, and 'having little relation to the systems of thought which occupy the minds of trained economists' (p.38).

John Nieuwenhuysen's introduction recognises recent developments in economic theory that suggest that government intervention in trade may sometimes be in the national interest. He notes that Paul Krugman, an eminent economist, believes the case for free trade to be currently in more doubt than at any time since 1817, when Ricardo's *Principles of Political*

*Economy* was published. Nevertheless, even Krugman argues against intervention on a variety of grounds including adverse consequences of interest group pressures. The real issue, it seems to me, is not whether some idealised government could improve the welfare of its citizens through carefully designed interventions, but whether real governments are capable of selecting which industries to assist, confining assistance to those industries and withdrawing assistance when it is no longer warranted. If governments were capable of acting in this way the structures of industry assistance throughout the world would be unlikely to resemble what we see today.

Given their view that the problem of protectionism arises from the power of wrong ideas and sectional interests, how do the contributors to this volume propose to overcome it? Some contributors are sufficiently optimistic about the prospects for reform through traditional negotiations to argue for priority to be given to the application of GATT rules, more open agricultural trade, and so on. David Henderson appears to suggest that we start afresh. He proposes the establishment of a trading system in which countries are effectively bound by agreed norms, rules and procedures that would limit the extent of protectionism. Unfortunately, he does not shed light on the method by which governments — which he acknowledges to be strongly influenced by pressure groups and pre-economic ideas — can be suddenly made to agree to, and abide by, a more enlightened set of rules than GATT.

Henri Lepage's proposal is to refocus the debate from 'cold' economic data to the defence of the consumer's right to buy what he or she wants at the best possible price. This has some appeal, but many people would find it difficult to accept that taxes on trade significantly infringe individual liberty; after all, J. S. Mill argued in *On Liberty* that restrictions on trade affect an aspect of conduct that society is competent to restrain if it

wishes. They are wrong solely because they do not produce the results which society wants. The debate will inevitably focus on economic data — whether cold or hot!

The view that Pacific Basin integration may contribute to trade liberalisation is put by Per Magnus Wijkman and Eva Sundkvist Lindstrom. They argue that the liberalising momentum through GATT is exhausted and that preferential trading arrangements continue to spread and to discriminate against the Pacific Basin economies. In an increasingly hostile commercial policy environment, integration of these economies is thought to be necessary to provide them with greater bargaining strength to defend the principles of free trade.

Other contributors who put forward proposals to overcome protectionism focus mainly on domestic obstacles. Their solutions include adjustment assistance, deregulation and greater policy transparency. David Greenaway proposes that funds currently used to subsidise uncompetitive production should be used to encourage resources to shift to other industries through labour market adjustment policies: retraining, relocation assistance, and so forth. This proposal is also advanced by Isaiah Frank. There is no recognition of the problems of such adjustment assistance: if it is industry-specific it creates inequities between people who lose jobs in different industries, and if economy-wide it does little to reduce resistance to reductions in protection in specific industries. Furthermore, it does nothing to remove any underlying institutional rigidities in the labour market.

Jose Manuel Sole discusses the adjustments the Spanish economy has been undergoing in the transition from limited exposure to international competition to full membership of the EEC. He argues that success in the trade liberalisation process is linked to deregulation that enhances the internal flexibility of the economy. In his view, resistance to change can be significantly mitigated by viewing regulatory impediments as redistribution

policies, and setting their effects against the general interest of the economy.

Ryuhei Wakasugi argues that Japan's industrial structure is being transformed by changes in the yen-dollar exchange rate. He does not offer specific proposals to overcome protectionism, but his contribution could be said to assist in that direction by helping the rest of the world to understand that Japanese industry is not immune from the laws of economics.

The potential for making trade barriers more transparent, mentioned by several contributors, is explained most fully by John Nieuwenhuysen. In his view, transparency requires widespread community knowledge of the consequences of trade liberalisation, both at home and abroad. He argues that government has an important role in promoting transparency as a counterweight to lobbying by industry interest groups.

This book obviously does not contain all the answers to the problems of the international trading system. However, it is refreshing to read anything about international trade that recognises the sources of protectionism and goes beyond bleating ineffectually that governments should to abide by the letter and spirit of the GATT.

## Foreign Policy in the 1990s

*David Anderson, Director of the Pacific Security Research Institute, reviews In Pursuit of National Interests: Australian Foreign Policy in the 1990s edited by F. A. Mediansky and A. C. Palfreman (Pergamon Press Australia, Sydney, 1988).*

This very useful collection of essays is divided into three main sections, dealing, in turn, with the domestic

dimensions of foreign policy, the context and objectives of foreign policy (including defence and economic aspects), and the implementation of policy with particular attention to Australian interests in the Asia-Pacific region. The promise of the subtitle — a look ahead into the 1990s — is not fully realised. But the quality of the contributions is generally high, and the volume should be required reading for students of foreign policy.

Some of the assessments have inevitably been overtaken by the astonishing speed of the changes in the Soviet Union that have led to the end of the Cold War; but Coral Bell's analysis of the international environment in which Australian foreign policy operates stands the test of time. The possibility of a major nuclear exchange between the superpowers, which she identifies as 'the most plausible ... danger in the international environment' has of course receded and now looks distinctly implausible. But she also foresees that our familiar environment may well become 'something harsher, less congenial, more competitive and demanding', with the central balance of the future 'largely Pacific-centred and Asia-dominated'. This, as Dr Bell points out, may not prove a 'very comfortable' prospect for Australia. Again, noting that economic issues become predominant in the absence of any immediate security threat, Dr Bell draws attention to the dangers of trade wars between major economic blocs, in which countries like Australia are condemned to suffer. Attention in the 1980s concentrated primarily on trade disputes between the United States and the European Community. The current deterioration in US-Japanese trade relations, however, carries dangers not only for economic interests but also for the US-Japanese defence relationship, on which the security of the Western Pacific heavily depends.

Against the background, the conclusions to Ross Babbage's concise and well-ordered essay on Australian security objectives seems just a shade complacent. Our remoteness from major centres of global competition and possible battlefields has certainly been a 'security asset' in

most respects. But the future areas of strategic competition could be less remote from our shores, and advances in technology that improve the projection of military power have reduced the defensive advantage of distance. There is good reason for satisfaction with our present policy of defence self-reliance, our alliances and our cooperative relations with neighbouring countries; and no better alternatives are on offer. It is not certain, however, as we move into uncharted waters, that these elements will always 'provide in combination the strength, flexibility and resilience needed to meet the security challenges that may confront Australia in the 1990s and beyond'.

Other essays examine our relations with the United States, Japan, and China. Professor Albinski finds that it has become easier for Australia to diverge from preferred American positions or to get its own way. With the ebbing of the Cold War and the decline of American economic predominance, Australia may in fact be able to pursue more independent external policies without damage to its interests or detriment to an alliance that will still be central to our security. Reviewing our relations with Japan, Alan Rix points to the danger of Japan's becoming an over-dominant partner and to the need to reassess Australia's increasingly passive and reactive role. Colin Mackerras offers a sober analysis of our relationship with China, avoiding both the euphoria of those who imagined that we enjoyed a position of special influence or access, and the extreme disillusionment of a Stephen Fitzgerald. Changes in the international power structure, Mackerras suggests, could always point the relationship in a new direction, as could changes in the power structure within China. The likeliest outcome, nevertheless, seems to be the continuation of a relationship that can offer benefits to both sides, but for which no extravagant expectations should be entertained.

In the Southwest Pacific, F. A. Mediansky examines the weaknesses and vulnerabilities of the island states and analyses the more important regional conflicts and tensions, and the interplay of external state inter-