



INSTITUTE FOR INTERNATIONAL BUSINESS, ECONOMICS & LAW

**A CRITICAL YEAR FOR INTERNATIONAL TRADE: IMPLICATIONS FOR AUSTRALIA
OF WTO AND FTA NEGOTIATIONS IN 2003**

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Thank you for inviting me to be with you today. It's a real pleasure to be a part of the Rugby Business Club Australia and to have the opportunity to review the implications for Australian business of trade negotiations underway this year.

Rugby World Cup 2003 is a magnificent opportunity to build on the success of the business programs initiated originally for the Sydney Olympics. There is a clear nexus between international sport and international trade – and many similarities to be drawn between Rugby World Cup and international business. If you want some concrete proof of that, this Sunday, I'll be joining Argentina's Ambassador to Australia here in Adelaide for the Ireland-Argentina match. We are old friends that first met across the negotiating table in Geneva.

We all know that this year is a very big year for international trade. It is a year marked by unprecedented levels of activity on the trade front at the bilateral, regional and global level. The past few weeks have been a particularly exciting time, even if the excitement hasn't always been for the right reason.

Australia has important new trade agreements with Singapore and Thailand and is in intensive negotiations with the USA. A new trade initiative has just been announced with China.

Earlier this week, APEC leaders met in Thailand and reinforced their longstanding commitment to regional cooperation and liberal global trade and adopted a declaration that is certain to help put the WTO talks back on track.

Also this week, America's chief negotiator for the FTA spent two days here in Adelaide and President Bush made a lightning visit to Canberra where trade issues were high on his agenda with Prime Minister Howard. A large American negotiating team is beginning to arrive in Australia for what has been billed as the penultimate negotiating session for the FTA.

The WTO negotiations are at a critical stage in the wake of the Cancun collapse in September and a major effort will be needed to get the momentum back in the talks by a mid-December deadline. In the past few days, there have been some encouraging signs: there's the good news from APEC; Brazil and India – leaders of the G-21 – have indicated a new flexibility; and a decision has been taken to hold the next WTO Ministerial meeting in Hong Kong, China.

For this country, the economic and political stakes in all of these efforts are immensely important.

Regular open competition between nations in business or on the sporting field allows competitors to benchmark themselves against the world's best. Like a good sports team, Australians have spent the past twenty years positioning themselves to take advantage of the opportunities offered by a growing engagement in international markets. You know that preparation for the competition is as important as the match itself. Enlightened decisions by economic policy-makers have led to regulatory and trade reforms that have nurtured a competitive business environment. This has worked so well that earlier this year, the OECD held out Australia as an example of how to successfully manage a modern competitive economy. Like a well-trailed rugby team, we can expect Australian business to be able to profit from more open overseas markets.

Any good economist will tell you that the economic benefits one might expect from a bilateral free trade agreement pale in comparison to the rewards of a successful multilateral negotiation under the WTO. I don't disagree with that for a minute. But even if the WTO route is the best option, it doesn't mean there aren't important benefits to be garnered from the right kind of bilateral agreement.

This is particularly the case these days with modern FTA's that have been dubbed by the Productivity Commission as "Third Wave" agreements. Third wave means that they normally encompass liberalization not only in areas of economic activity treated under the traditional GATT and more recent WTO agreements but also typically extend to "WTO Plus" questions not yet covered in the global system like rules for foreign direct investment, competition policy and enhanced and updated intellectual property rights protection. Those who have taken a modern approach to assessing the impact of these third wave agreements have found that – unlike old-fashioned tariff-only FTAs - the effect on investment flows can be more important than on trade.

Negotiating modern third wave FTA's in parallel with the WTO talks has often been referred to as "competitive liberalization" because the objective is to keep driving the bicycle of trade liberalization forward. Sometimes when one of the bike's wheels gets a bit sticky – like the WTO after Cancun – we need to keep it turning by pushing a bit harder on the bilateral wheel. Countries like Australia and the United States don't want to have to wait for India to decide it's time to liberalise markets.

Back to the WTO. This month in Australia, rugby's the big game. This year in global trade, the WTO talks are still the big game. We can see this just by looking at some aspects of the three core areas of the talks: services, agriculture and industrial market access.

A good starting point is international trade in services. A competitive market for trade in services is a basic building block of the modern economy. You need at least two teams to play rugby. Sometimes, the way to ensure the market is competitive is to ensure access to the game for foreign-based players.

Last year, the global telecommunications market was worth more than \$US one trillion. This market is relatively open, but it wasn't always that way. Before the WTO's 1997 Agreement on Basic Telecommunications Services, only a small percent of the world's top telecommunications markets were open to effective competition. Today more than 95 percent of global telecommunications markets are open to access by foreign competitors. At the same time, electronic commerce has grown wildly and in the United States alone, the value of advertising revenue on the internet now exceeds US\$ 10 billion annually.

Access to computer services is becoming increasingly important as customers rely more and more on information technology services suppliers to meet their information systems needs. Last year, for the first time, worldwide spending on information technology services (at US\$ 426 billion) exceeded

worldwide spending on IT hardware (at US\$ 376 billion). No wonder that in the request/offer process of the current WTO services negotiations, both developed and developing countries are pushing for increased access for ICT-related services.

On October 7, the Australian carried an article that documented the importance of a competitive business environment and tied this together from a very practical standpoint. According to the article, in the Japanese broadband services market -- where there is fierce competition between a wide range of providers -- broadband services are by far the fastest and cheapest. Prices are thirty-five times less than in the USA for access and download speeds.

A Japanese user can download an entire movie over the internet in 20 minutes. It takes six hours to do that in the USA and 12 hours in Switzerland. Trying to download the movie over a standard dial-up modem would take up to seven days.

In economies where there is no competition, where there is really no choice except for the incumbent provider -- such as Swisscom in Switzerland, prices are higher and speeds are slower. In Switzerland, broadband services are 110 times more expensive than in Japan. If you need broadband for business, think of what these differences can mean to your competitiveness.

Compared to services, agriculture is actually a pretty small economic actor on the global trade scene. In most developed countries less than three percent of the population is employed in the sector and agriculture's relative importance in international trade is also on the decline. Notwithstanding this introduction, agriculture has to be seen as the central issue in the Doha Round of WTO negotiations for several reasons:

- First, it is through enhanced access to developed country markets for agricultural products and reduced rich country subsidies that the world's poorest countries stand to realize the promises of this "development round";
- Second, while the Uruguay Round made a start, it is time to bring the rules for agricultural trade more within the system's acceptable rules of conduct. You've heard it already, but how much sense does it make for the United States to pay \$4 billion in subsidies to domestic cotton production when the annual value of the crop produced is only \$3 billion?
- Third, whether we like it or not, progress on agriculture is linked to progress on other issues. We have a longstanding saying in WTO negotiations that "nothing is agreed until everything is agreed".

How important is the agriculture and development nexus? Consider the case of sugar. Sugar is one of the most policy-distorted commodities in global trade. According to the World Bank, subsidies to sugar producers paid by the US, EC and Japan total US\$ 6.4 billion annually -- approximately equal to all developing country exports. High-cost sugar prices in the developed country markets have encouraged the growth of high-cost inefficient sugar substitute industries. The production and consumption of sugar substitutes has now displaced at least 10 million tons of annual sugar consumption -- equivalent to one-third of world sugar exports -- in the past thirty years. As a result of all of this, the world price for sugar today is below the cost of production of many of the most efficient producers. How can we expect developing countries to trade their way to economic development in this kind of environment?

Industrial tariff reductions are another important component of the "development" aspect of this negotiation. And it's not all in North-South trade. Improved access to developing country markets for industrial products is important for exporters in other developing countries. Between 1990 and

1999, the share of intra-developing country trade in manufactures increased from 29 to 34 percent. And it is frequently on products of greatest interest to other developing countries where developing countries maintain their highest tariff protection. The World Bank has calculated that a hypothetical agreement to reduce tariffs to an average level of one percent in industrial countries and five percent in developing countries would raise developing country income by US\$108 billion - more than twice as much as the gain estimated for developed countries.

The WTO Round has been set back by the collapse of the Ministerial session in Cancun, but the negotiation is not over and it would be a tragic miscalculation to write off its possibilities. In recent days there have been encouraging signs of new flexibility from a number of important countries. With over 170 countries involved in the talks, a dozen technically complex subjects to treat and difficult linkages drawn between seemingly unrelated issues, this flexibility is important. The General Council Chairman has a tough job on his hands. Let's hope he can pull it together, because there is too much to lose if he doesn't.

The other day I saw a forecast that South Australian exports, after falling 6.3 percent in 2002-03 to \$8.6 billion are expected to recover to \$9.1 billion this year and reach a record \$10 billion in 2004-05. These estimates are independent of what could be the effects of the trade talks now underway.

We know that South Australia conducts a proportionately higher volume of its export trade with the United States than do other Australian states. We also know that Australian wine exports to the U.S. grew by an astounding 44 percent last year. So the anticipated FTA can reasonably be expected to boost South Australian exports significantly beyond these already encouraging figures.

On the multilateral front, the World Bank has just published estimates that a new round of WTO market opening would raise global output by between \$290 billion and \$520 billion by 2015. There's a further boost to our export markets. Think about it: even if these estimates are off by fifty or sixty percent, what remains is far too important to ignore.

There is a lot to do this year and a lot of it is hard work. It won't be easy, but it will be important to finish the FTA with the USA by the end of the year in order to align its approval process with American and Australian election cycles. The new agreements with Thailand and Singapore have to be implemented and sometimes that can be as hard as the negotiations. At the same time, Australia is embarking on a new initiative with China and has a central interest in getting the WTO talks back on track by December. I cannot remember when I've seen a more challenging year in international trade. But the pay-offs will be worth the effort.

As I suggested in the beginning of my presentation, success in export markets, like success on the rugby field, requires commitment, training, practical preparation and perseverance.

I commend Rugby Business Club Australia as an initiative that is helping Australia realize its potential as a destination for investment, tourism and partnership in trade by leveraging international interest in Rugby World Cup 2003 to promote Australia to the world as a place to do business.

Thank you for your attention.

