

Submission to the Productivity Commission's Review of Bilateral and Regional Trade Agreements

Martin Richardson

I have looked at a number of early submissions to the Productivity Commission's current Review of bilateral and regional trade agreements (PTAs henceforth) and I am submitting this brief statement myself in support of a number of important points made in those submissions.

Prof. Peter Lloyd has made a number of cogent arguments regarding aspects of PTAs. I would strongly endorse his position that the empirical investigation of 'trade diversion' versus 'trade creation' is a waste of resources. He mentions two compelling reasons for this, to which I would add a third: trade diversion is a function of a country's tariff against the rest of the world and this is endogenous. Prof. Lloyd notes that Australia's MFN tariff has been steadily declining, to the point where any trade diversion losses from a bilateral agreement are likely to be trivial. This is correct, and my point is simply that, in an investigation with the scope of this PC Review, one should legitimately consider further reductions in MFN tariffs as a means of coping with any perceived 'trade diversion'.

I also suspect that Prof. Lloyd is right, unfortunately, in noting that it is futile to push notions of 'best practice' in these agreements, although I differ in my reasons for that scepticism. (More accurately, perhaps, I again agree with Prof. Lloyd but would add a further reason for scepticism.) Fundamentally, trade negotiators in this country, post-CER, appear to place zero weight on domestic consumer interests. Accordingly, principles of 'best practice' are distorted by negotiators' objective functions – best practice for serving producer/exporter interests need bear no relation to best practice for serving a more balanced measure of societal wellbeing. Consequently, 'best practice' becomes a shibboleth, a catchphrase that needs to be trotted out by negotiators but which has no substantive meaning.

Finally on Prof. Lloyd's submission, I endorse his suggestion that APEC should be treated as being *sui generis*, in a sense, but would go a lot further. I have been an APEC-sceptic since it was first being embraced by travel-hungry public servants and I believe that the only function it provides is to distract trade negotiators from their other activities (not always a bad thing,

of course!) Prof Lloyd writes, "If APEC is included in any Productivity Commission analysis, it should be treated as distinct from all binding reciprocal bilaterals and regionals." I would go further and suggest strongly that it should not be included in the PC analysis at all, as it is solely a model for costly inactivity. Non-binding undertakings are like New Year's resolutions and should be taken no more seriously.

I conclude by turning to the submission by a panel of trade policy experts ("Joint submission by nineteen Australian and New Zealand business leaders and economists"). The essential point of that submission, as I understand it, is that trade policy is driven by domestic special interests and that greater transparency in the transmission of such interests through the policy process should be the primary objective of a policy-maker interested in serving the national weal. This is a position that I endorse strongly. I am perhaps a little cynical about the prospects of implementing such a system of transparency, simply because the interests that benefit from the status quo are very aware of the threat of transparency and those same interests would certainly oppose such transparency (analogously to Brock, Magee and Young's Principle of Optimal Obfuscation.) Nevertheless, the objective is one that is unarguably meritorious: increased transparency (in the sense of more complete – and more completely disseminated – information on the costs and distributional consequences of proposed policy changes) simply cannot be welfare-reducing. The best hope of implementing such a scheme rests with it obtaining the support of an independent agency charged with serving the national interest; hence the relevance of the submission to the PC.

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