

A high-angle, 3D-rendered image of a man in a dark suit and tie, carrying a briefcase, walking away from the viewer down a wide, light-colored path that leads into a complex maze of blue and white walls. The maze is composed of various sized rectangular and square openings. The lighting creates strong shadows on the floor. On the far left edge of the image, there is a vertical bar with an orange top half and a blue bottom half.

Policy Transparency

*Why does it work?
Who does it best?*

POLICY TRANSPARENCY

**Why does it work
Who does it best**

Prepared for
**Rural Industries Research and
Development Corporation**

Prepared by
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4 July 2008

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ISBN 1 74151 624 2
ISSN 1440-6845
RIRDC Publication No. 08/085
RIRDC Project No. CIE-30A

Published by
Rural Industries Research and Development Corporation
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Cover design by RIRDC
Printed in Australia by Canberra Publishing and Printing

FOREWORD

The Doha round of trade talks aimed at lowering barriers to trade has proved problematic. Deadlines have been missed and stalemates endured with talks suspended for a time. The talks are of special interest to Australia since global trade reform of agriculture, one of the most restrictive areas of world trade, would benefit Australian farmers and many others in the world.

The difficulties with the Doha talks, and of removing barriers to trade more generally, have their roots in the lack of public awareness of the benefits from removing trade barriers. So improving awareness of benefits is crucial to better trade outcomes. This study demonstrates the importance of good domestic transparency of trade policy. But ‘transparency’ is not a well-understood concept. Also underappreciated is why transparency leads to better outcomes.

Yet there are valuable lessons to be learned from those countries that have good domestic transparency processes. Understanding what policy transparency is, why it works and who does it best will contribute to better transparency of trade policies and therefore better trade outcomes.

Peter O’Brien
Managing Director
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ACKNOWLEDGEMENTS

This study grew out of two earlier conference papers. One was titled *Transparency, Australian Policy Processes and International Trade* delivered to the International Association of Agricultural Economists conference in August 2006. The other was titled *Transparency and its Role in Freeing Up International Trade* and was prepared for the Lowy Institute in 2007. Comments at these conferences were helpful in forming ideas for this study. Helpful comments were also received from Sandy Cuthbertson. Remaining errors and admissions are, of course, ours alone.

Editorial input was provided by Rebecca Perry and Anna Bieler oversaw production and publication of the study. Their input is gratefully acknowledged. Finally, the financial support of the Rural Industries Research and Development Corporation is also gratefully acknowledged.

GLOSSARY

APEC	Asia-Pacific Economic Cooperation
CITT	Canadian International Trade Tribunal
CPRR	Council for the Promotion of Regulatory Reform [Japan]
DFAIT	Foreign Affairs and International Trade Canada
EA	Environmental Assessment [Canada]
EC	European Commission
EU	European Union
GATT	General Agreements on Tariffs and Trade
GTAP	Global Trade Analysis Project
IMF	International Monetary Fund
MFN	Most-favoured-nation
MIC	Ministry of Internal Affairs and Communications [Japan]
OECD	Organisation for Economic Co-operation and Development
PSE	Producer Support Estimate
SIA	Sustainability Impact Assessment [EU]
TPRB	Trade Policy Review Body
TPRM	Trade Policy Review Mechanism
UNCTAD	United Nations Conference on Trade and Development
USITC	United States International Trade Commission
USTR	United States Trade Representative
WTO	World Trade Organization

SUMMARY

Better economic policies, including trade policies, lead to better outcomes — whether they be economic, social or environmental. And better transparency leads to better policies being adopted by governments.

‘Transparency’ as used in this report is the ongoing, publicly accepted scrutiny of the economywide benefits and costs of policies. Transparency comprises several inter-related elements and all have a role to play if policy reviews are to lead to better outcomes.

There are four core elements to policy transparency. One is the public access to all relevant information held by government. The public have to know what policies are in place and how they work.

Another element of policy transparency is the credibility and public acceptance of the process and therefore findings of policy reviews. That, in turn, mostly implies independent and contestable reviews with stakeholders having a chance to input their views. For the electorate to demand better outcomes they need to be informed and have some ownership over the review process.

Accountability is a core component of transparency because it leads to better policy choices and therefore better outcomes by electors choosing better governments. It implies two things. First, it implies that the findings of policy reviews be a formal input into government decision making. If governments do not take notice of findings,

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better policies will not be adopted. Without this requirement it can be too easy for government to ignore the findings of independent reviews and cave in to narrow vested interests, avoiding accountability for their decisions. The second aspect of accountability is the need for all policy areas of an economy to be systematically reviewed over time. Circumstances change and policies may become outdated, unneeded or overlap with each other. The systematic and repeated review of all policy areas of an economy helps identify policy failings and improves accountability. The systematic review of all areas also helps the fourth core area — policy coherence.

Policy coherence is important because policies that are piece-meal can conflict with policies in other areas of the economy, counteracting their intended effect. Policies have to be appraised in a way that considers all repercussions and linkages in an economy. That implies evaluating policies for their costs and benefits in an economywide setting so the national interest is evaluated. It is not possible to serve the national interest if people do not know what is in the national interest.

Transparency of policy works through several channels. It identifies the national interest, it informs and educates the government and the public, it exposes narrow vested interests, weakening their influence, and it helps build coalitions for reform. By establishing clear criteria for ‘good’ policy, transparency leads to a more predictable policy environment and reduces uncertainty faced by investors.

Most major economies have some degree of policy transparency. This study reviews transparency of trade policy. Trade policy is one area in which the gains from more transparency may be sizeable. All economies trade and there is a broad consensus among the economics profession that freer trade is ‘good’ trade policy. And there is a

ready index of how good a country's trade policy is — its openness to trade and the dispersion of tariffs.

Australia, through its Productivity Commission, is the standout example of good policy transparency. The Commission is independent and has a reputation for producing high quality credible reports. These reports form part of the formal input into government decision-making. Analysis is economywide, and the Commission has a broad remit to look at all areas of microeconomic reform, not just trade policy. The Commission has had a positive impact on economic policy and Australia is one country to have unilaterally reduced its own tariffs to its own benefit. The Commission's independence could be strengthened by reinstating the ability of the organisation to conduct its own inquiries into industry policy rather than wait for a reference from the Government. While there are ways to strengthen the Productivity Commission's policy transparency, it provides a benchmark to appraise other review bodies around the world.

The United States International Trade Commission (USITC) is the primary review body on trade policy in the United States. While the USITC undertakes useful economywide analysis, its main role is to administer US trade remedy laws. Indeed, antidumping inquiries comprise roughly a third of its work. The problem is that the USITC's work in this area of antidumping is basically to implement bad policy, even though it is done in a 'transparent' way. Antidumping evaluations do not embrace an economywide national interest test. This means there is a lack of internal coherence between the USITC's role in giving policy advice based on economywide analysis and its role in administering protectionist antidumping policies. To the extent that trade policy does get analysed in the United States, the focus tends to be on new trade policy or changes to existing policies. Longstanding policies do not receive

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regular scrutiny. The electorate is not informed on what is good policy and what is not. In those cases where the impact of all significant import restraints have been analysed, the USITC cannot make formal recommendations, so the administration can ignore politically inconvenient findings. Other trade-distorting policies, particularly those in high protection areas like agriculture, do not get systematically reviewed in an economywide context. Improving trade policy in the United States would require amending antidumping legislation to include an economywide national interest test, and ensuring that the systematic analysis of all existing areas of trade policy is a formal input into government decision-making.

The European Commission is the main body in the European Union responsible for trade policy and its transparency. While Trade Sustainability Impact Assessments are carried out for all the EU's major trade negotiations, they do not fully meet all the ideal transparency criteria outlined in this study. As in the USITC, analysis mainly focuses on new or amended trade policy. Existing trade policy measures are not systematically reviewed. Also, there are nine separate criteria in its national interest test that have the ability to confuse and confound objectives so the clarity of the trade-offs in the national interest is lost. Enhancing policy transparency in the European Union would require the systematic review of all existing trade policies, not just new proposals, and greater emphasis on the national interest and the impossibility of efficiently hitting multiple goals (economic, environmental and social) with one policy instrument (barriers to trade at the border).

In Japan, the key limiting factor is the failure to assess policies against the national interest rather than the Government's objectives. Independence of the reviews could be strengthened with less reliance on policy self-evaluation by ministries.

In Canada, economic analysis of trade policy proposals is completed only as an input into an Environmental Assessment. The end result is therefore an assessment of the environmental impacts of the policy proposal, rather than an estimate of the economywide costs and benefits. As with many countries, only changes to existing policies are analysed. A systematic review of existing policies would improve transparency. The Canadian Government also tends to conduct its analysis 'in-house', which compromises the independence of the review. There is scope for the independent International Trade Tribunal to conduct independent analysis. However, in practice, few economic, trade and tariff inquiries are referred to the Tribunal and these are extremely narrowly focussed. The International Trade Tribunal focuses more on protectionist dumping and safeguard inquiries, rather than examining import barriers and what is in the national interest.

Trade policy in Indonesia and China is less transparent than in the developed economies, but there are useful elements to build on. Despite lacking freedom of press, there is a definite trend to greater transparency in China. China has conducted some economywide analysis of trade policy and many areas of economic policy are 'debated' publicly before implementation.

This study also reviews transparency provided by three international organisations: the OECD, the World Bank and the World Trade Organisation. Transparency by international agencies differs from transparency by domestic organisations in one critical aspect: it is done by 'outsiders'. As such there is no direct political pressure on domestic governments to formally consider the findings in framing domestic policy. It is all too easy for governments to ignore the findings by outsiders if they do not suit. International transparency is not linked to a domestic transparency process and will always suffer from this failing.

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Also, international reviews tend to be comparative and prone to finger point about who is worse than whom. But this comparison matters little, and can make matters worse by deflecting attention from the main issue at hand: will a country become better off by unilaterally reducing its barriers to trade? That is the choice each country has, not how much it can influence the behaviour of others.

Apart from the inherent weakness of all international transparency work, the World Bank, and to a lesser extent the OECD, produce independent, credible, economywide analysis that is widely quoted around the world. The OECD's efforts to systematically review agricultural policy by publishing producer support estimates, while valuable, suffer from not being economywide economic analysis. Their work does not show what is in the national interest, nor does it show who bears the final burden of protection from imports. It does not encourage coalitions to form to remedy bad policies. While governments are sometimes involved in the work done by the World Bank and the OECD, there is little input from other stakeholders within countries.

Of all transparency exercises of trade policy examined the WTO's Trade Policy Review Mechanism is the one that meets the fewest criteria for good transparency as outlined in this study. While the WTO's reviews provide information on trade policies, there is no economic analysis at all, let alone economywide analysis. An independent report from the WTO Secretariat forms part of each trade policy review, but there is also substantial input from the departments of trade in the country under review, which have the incentive to defend their own policies. Trade policy reviews conducted under the auspices of the WTO have no material effect on better trade policies. Since the effect on the national interest from each country's trade policy is not domestically evaluated, there is no chance that the national

interest could be served. Given the major deficiencies of the WTO's approach, a fundamental rethink is needed of how the WTO can improve transparency of trade policy if members want to advance a more liberal world trading system.

Regardless of changes to international transparency, to advance better trade policies, the emphasis has to shift onto domestic processes. The reason is domestic processes will always be more influential in changing the political economy of reform than external scrutiny.

To improve transparency of trade policy, it is critical that domestic governments adopt the key criteria of successful transparency — the ongoing publicly accepted scrutiny of the economywide benefits and costs of trade policies. The key to adopting those criteria is to understand what policy transparency is and why it works to deliver better outcomes. The national interest cannot be served if the national interest from changing trade policies is not assessed. And the assessment works best when it is made with good public governance principles.

1 WHAT IS THIS STUDY ABOUT?

Trade officials have been negotiating reductions in trade barriers since the Doha round of trade talks began in 2001. But to date there has been little concrete progress. Indeed, it is not clear whether the talks will just be held in ‘limbo’ until 2009 after a new President is elected in the United States in November 2008.

Crises in the international trading system are not new. Three years after the launch of the Uruguay Round of negotiations in Punta de Este in September 1986, a study group led by Olivier Long, a former Director-General of the GATT (now the WTO) from 1968 to 1980, wrote ‘the international trading system ... is in crisis’.¹ But while ‘crises’ are not new to international trade negotiations, what is extraordinary is why progress towards freer trade is slow despite a barrage of reputable evidence that it is in each country’s interests to free up trade. The World Bank, for one, estimates global welfare could increase by \$300 billion a year by 2015 from liberalisation of goods trade, of which agriculture comprises the bulk of the gains.² Moreover, the World Bank finds developing countries could gain disproportionately from further global trade reform. Why is it that

¹ Long, O., et al. 1989, *Public Scrutiny of Protection, Domestic Policy Transparency and Trade Liberalization*, Trade Policy Research Centre, London, p. 1.

² Anderson, K. and Martin, W. (eds) 2006, *Agricultural Trade Reform & The Doha Development Agenda*, a co-publication of Palgrave MacMillan and the World Bank.

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something as patently beneficial to WTO members as trade liberalisation cannot be introduced?

The answer during the Uruguay Round crisis, according to Olivier Long's Study Group report, was better transparency of trade policy. The deficiency Long saw in the negotiations for a better trading system was the lack of visibility of the economywide benefits and costs of trade policy. Long argued that there should be greater domestic public scrutiny of the economic effects of trade policy.

The notion that better transparency of policy leads to better outcomes that enhance welfare is not new. It is a concept embraced by international organisations such as the OECD, the World Bank, the IMF, and the APEC Secretariat among others. But there are different views about just what transparency of policy is. These range from static concepts such as access to information — akin to freedom of information laws in many countries — to more dynamic concepts concerned with due process and good policy governance. Hence, the starting point for this study is to answer the question: what is policy transparency? It will become clear that there are many elements to transparency. One bit of transparency may be done well but not others so there are degrees of policy transparency. But which elements are critical and how do they interact with others?

Even less well appreciated is a consensus and understanding of why better transparency of policy leads to better outcomes. Why is it that the one thing many argue could make a difference in liberalising trade is not put into practise? So chapter 3 addresses the question, why does transparency work?

To demonstrate that transparency does work, a selective review is conducted of transparency organisations and arrangements across the world to see who does it best.

1 WHAT IS THIS STUDY ABOUT?

Australia's Productivity Commission has the best domestic transparency arrangements in the world, but even so there are ways to improve transparency. Australia, incidentally, has followed a path of unilateral liberalisation of trade barriers in its own self-interest.

The case for better policy transparency extends to all areas of economic policy, not just trade policy. But trade policy provides a particularly good example of failed attempts at promoting better public scrutiny of the effects of barriers to trade. It is one area of economic policy where there is a broad consensus that removing barriers to trade makes people better off. There are lessons in why transparency of trade policy as a concept has not been fully embraced by the international community. And because trade policy is an area common to all countries, comparing different approaches is instructive since a ready-made index of policy 'success' can be found — how open the country is to free trade.

2 WHAT IS POLICY TRANSPARENCY?

No modern economy can function efficiently without appropriate government policy and rules. At the most basic level a system of property rights is needed along with the rule of law and enforcement of contracts. These ‘rules of the game’ establish incentives that shape human behaviour, which in turn determines outcomes. How these ‘rules’ evolve is a critical determinant of an economy’s performance.³ Governments set the rules but some groups influence the shape of those rules to favour themselves at the expense of others.

The influence of these groups and their justification for special rules vary, for example, from human safety to food security and defence. But the effect is usually the same: some narrow vested interest is favoured at the expense of another or the community more generally. Unless the benefits to the favoured group outweigh the costs to those bearing the burden, the national interest suffers. So properly measuring the net benefits of policy — that is, in an economywide context that incorporates all ripple effects through an economy — is essential to determine whether a policy is in the national interest.

Mostly, the domestic processes that assess the national costs and benefits of policy are inadequate. Governments

³ North, D. 2005, *Understanding the Process of Economic Change*, Princeton University Press, Princeton.

2 WHAT IS POLICY TRANSPARENCY?

rarely address the question of what are the national benefits and costs of trade policy through good public governance processes. It is this deficiency more than any other that has led to the stalemate in the Doha round of trade talks.

Remedying this deficiency is essential to promote better policies that are in the national interest. Part of that remedy is for the public to be convinced that transparency actually works. A crucial step in that process is to explain exactly how it works. But before we can describe how something works we need to describe what it is.

A definition of transparency

Despite its importance, no consensus has emerged on a description of the concept of transparency. In one review of transparency in relation to international investment, the OECD observes, ‘there is no commonly agreed definition of transparency’.⁴

But two distinct themes behind the use of the term can be distinguished. The first is a static one that highlights the degree of openness and availability of information. An example is a recent report by the World Bank on transparency and trade facilitation.⁵ The authors of that study define and assess transparency according to two aspects: predictability and simplification. On predictability the World Bank used several indicators including the percentage of tariff lines that are bound (thereby constraining the scope for arbitrary changes to tariffs) and the ‘flatness’ of the applied tariff schedules (thereby reducing complexity

⁴ OECD 2003, *Public Sector Transparency and International Investment Policy*, 11 April, p 8.

⁵ Helble, M., Shepherd, B. and Wilson, J. S. 2007, *Transparency and Trade Facilitation in the Asia-Pacific: Estimating the Gains from Reform*, *Asia-Pacific Economic Cooperation and The World Bank Development Research Group*, published by the Department of Foreign Affairs and Trade, Canberra.

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and scope for dispute). ‘Simplification’ as the second measure also used several indicators including, as before, the percentage of tariff lines that are bound (making it easier to find out what actual tariffs are in force) and the absence of ‘hidden’ trade barriers (which makes information on actual barriers hard to obtain). These indicators, and others used in the World Bank study, highlight the openness, accessibility and availability of information as key aspects of transparency. But while these aspects are important and are amenable to scoring and ranking, they are static concepts, less about policy than administrative transparency. The WTO states that:

‘ensuring ‘transparency’ in international commercial treaties typically involves three core requirements: (1) to make information on relevant laws, regulations and other policies publicly available; (2) to notify interested parties of relevant laws and regulations and changes to them; and (3) to ensure that laws and regulations are administered in a uniform, impartial and reasonable manner’. ⁶

The emphasis here is on information being publicly available, interested parties being notified of relevant changes and the impartial administration of rules and regulations.

The second theme behind the use of the word ‘transparency’ in policy emphasises the dynamic or process related aspects. Here descriptions of transparency use words such as ‘public consultation’ and ‘active participatory approaches’ to ‘assess the true costs and benefits of government activities’. Used this way, transparency emphasises due process and good public governance in the development of better policies.

Obviously, this good public governance concept of transparency also relies on incorporating the static aspects des-

⁶ World Trade Organisation 2002, *Transparency*, WT/WGT1/W/109.

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cribed above, such as easy access to all information. Without access to information, timely analysis of the costs and benefits of policy would not be possible. The OECD's definition of transparency in its glossary of statistical terms (taken from an IMF publication on monetary and fiscal transparency) highlights these aspects:

[Transparency] involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities so that the electorate and financial markets can accurately assess the government's financial position and the true costs and benefits of government activities including their present and future economic and social implications.⁷

The OECD's definition emphasises not only the provision of information, but also the reason why this information is so important: the ability to appraise what is good policy and what is not. While it is true that the electorate needs to be able to 'accurately assess ... the true costs and benefits of government activities ...' the problem is just how this is to be done.

Information has to be sufficient for the electorate to work out for themselves what the benefits and costs of policy alternatives are. But the reality is that to appraise costs and benefits properly means considering all upstream and downstream ripple effects throughout an economy. Measuring economywide benefits and costs takes expertise and resources — which often reside within government. So how does the electorate become informed? Governments can help inform the electorate about the consequences of policy by engaging in good review processes and undertaking their own transparent 'arms-length' reviews of policies. It follows that aspects like independence, credibility and a coherent approach by the reviewing agency

⁷ OECD, *Glossary of Statistical Terms, Fiscal Transparency*, <http://stats.oecd.org/glossary/detail.asp?ID=7294>. Accessed 3 December 2007.

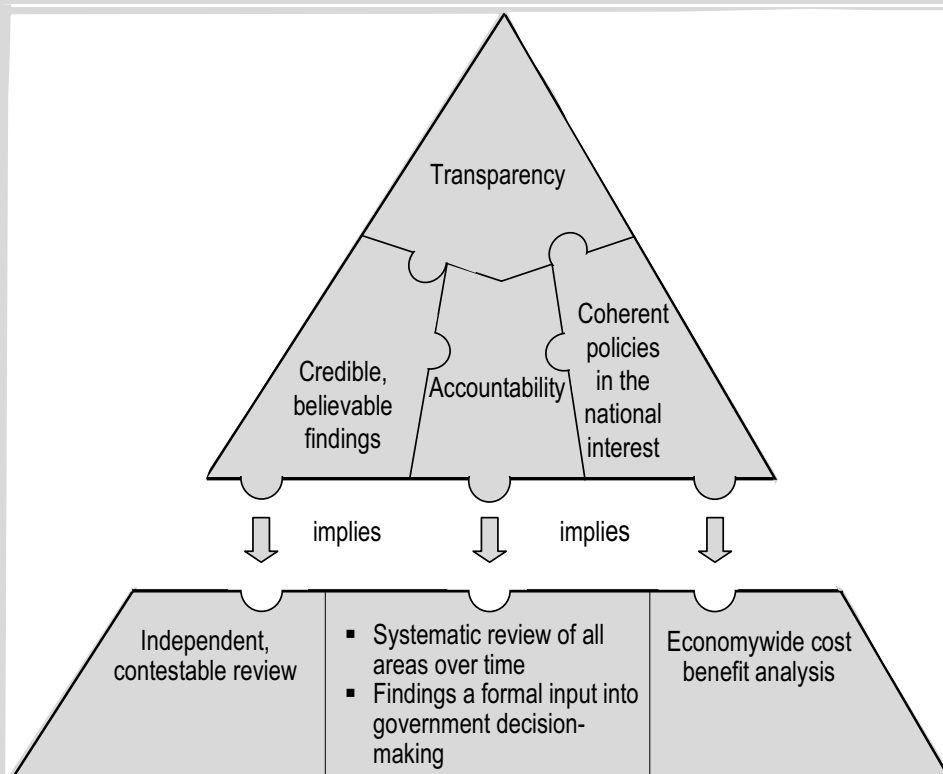
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are all important attributes of good policy development. These attributes are now explained. Following that a simple workable definition of transparency is given.

Transparency as a pillar of good public policy development

Transparency sits on top of three other inter-related core principles behind good policy development. These are the credibility of the policy review, accountability and the coherence of policy (that is, that each policy should be consistent with other national goals being pursued). These four core principles require other processes to be present. These elements are shown diagrammatically in chart 1.

1 Transparency comprises several inter-related elements



Source: TheCIE.

2 WHAT IS POLICY TRANSPARENCY?

Credible, believable findings from policy evaluation are important because the electorate will not vote for governments that do not reflect their wishes. That is, while policy-makers need to understand the difference between good policy and bad, ultimately it is voters, to whom the government is accountable, that have to appreciate and believe what is the right policy course to follow. But appraising policy takes time, effort and some expertise. It is not feasible or efficient for every voter to evaluate each policy issue. Rather, they rely on others whom they trust — media commentators, friends, organisations, academics or others — to form a shorthand view of good policy. Sometimes there are formal government reviews of policies. But these reviews will not be believed or accepted if they are not at arms-length or perceived as being independent of government.

Many would argue that independence should be a core principle of transparency. But what matters more is that good analysis of the costs and benefits of policy is conducted and the wider public believes the findings. If the results of the analysis and the data and methodology behind it are fully transparent so they could be repeated by a third party — in other words they are contestable — the quality of the original work will stand on its merits. In this context, ‘independence’ need not be the prime criterion for acceptance of the findings by the electorate. Repeatability and contestability is, after all, a key principle behind the ‘scientific method’ by which quality scientific research is conducted. Credibility is also established by the professionalism and competence of the reviewers so that reputation is won by getting it right over time. Put another way, ‘independence’ with incompetence or, as will be seen later, a mandate that circumscribes the way the review is to be done, will not be effective. Independent bad work will still be bad work.

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A problem with the notion that independence and contestability are somewhat substitutable is that, in reality, repeated appraisals of complex policy will not occur. Resources and expertise are limited and the cost of repeating work can be high. While contestability relies on the *opportunity* to repeat and challenge results, the cost can be high enough so that findings are never actually challenged. Also, in policy reviews, there is always a need for judgement, and often credibility will require independence. The average person may not have the ability to critically evaluate the analysis, only the credentials and the likely motivation of the reviewer. So, although independence is not seen as important conceptually as other core principles, as a practical matter, the independence of the reviewing agency will be critical to lead to credible findings that are believed and accepted by the public.

Accountability is a core component of transparency because it leads to better policy choices and therefore better outcomes by electors choosing better governments. It implies two things. First, it implies that the findings of policy reviews be a formal input into government decision making. It is government that sets policy so the costs and benefits of policy reviews, if they are to be effective, need to be used as a formal input into government decision making. That does not mean government should ignore the politics of a particular policy change. To the contrary, governments are there as a result of political forces and they cannot ignore them if they want to stay in power. But good economics is also good politics since 'more' is preferred to 'less' whether it is income or clean air. Governments are likely to make better welfare enhancing decisions if they are privy to the best economic analysis of policies and that analysis is widely appreciated by the public. Also, good analysis makes it clear what governments, and therefore society, may be foregoing if they make certain decisions on political grounds and ignore the results of economic

2 WHAT IS POLICY TRANSPARENCY?

analysis. Governments are then more accountable for their decisions and better government should be the result. If it is not a requirement that governments formally consider the findings of policy reviews, it can be too easy for government to ignore the findings of independent reviews and bow to narrow vested interests who will ensure their views are injected into government. The second aspect of accountability is the need for all policy areas of an economy to be systematically reviewed over time so that the electorate can see the performance of the government over a range of decisions. The systematic and repeated review of all policy areas of an economy helps identify policy failings and improves accountability. The systematic review of all areas also helps the fourth core area — policy coherence.

The importance of coherence of policies in the national interest is important because policies that are piece-meal can conflict with policy in other areas of the economy. For example, subsidies to encourage domestic agricultural production and exports run counter to policies that protect manufacturing sectors from import competition since it is well established that import taxes (tariffs) are a tax on exports.⁸ One arm of policy is counter to another so neither will have its desired effect. Hence, policies have to be appraised in a way that considers all repercussions in an economy. This can only be done by reviewing policies in an economywide setting whereby all linkages throughout an economy are considered. This approach is necessary to measure what is in the national interest.

Coherence, as noted above, means a piece-meal approach has to be avoided. It follows that all areas of an economy should be reviewed. It is less beneficial to just focus on

⁸ Stoeckel, A. 1999, *Reason versus Emotion: Requirements For A Successful WTO Round*, Convened for the Cairns Group Farm Leaders in conjunction by the Centre for International Economics, Canberra and the Cordell Hull Institute, Washington, DC, Thursday, 2 December 1999, Seattle.

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trade policy if tax policy and competition policy are poor and not subject to scrutiny and improvement over time.

A workable definition of transparency

By focussing on the elements of policy transparency and what it is trying to achieve, it is clear that the purpose of transparency is to lead to better policies so people can be made better off. The best definition of policy transparency that embodies the elements of chart 1 also turns out to be the one that embraces the sentiments of the earlier Olivier Long report. It would be, ‘the on-going publicly accepted scrutiny of the economywide benefits and costs of policies’.

Defined this way, transparency emphasises the role of good public governance that leads to policy improvements and better outcomes for society. It emphasises the need for results to be believed, which involves some combination of professional credibility, independence and contestability of the results. Transparency is about understanding the effects of policies. As the Olivier Long group expresses it:

Domestic transparency thus extends beyond the issue of whether or not information on public assistance to industries is *available* to domestic constituents. Many countries already provide such information in official publications — customs schedules, periodic gazettes *et cetera* — but this has no influence on the policy-making process. The role of ‘transparency’ in facilitating trade liberalization involves not simply raising the domestic visibility of particular barriers to trade but also promoting an understanding of their effects, which is to say their costs and benefits, within the economy.⁹

The next issue is how transparency works.

⁹ Long, O. et al, 1989. *Public Scrutiny of Protection, Domestic Policy Transparency and Trade Liberalization*, Trade Policy Research Centre, London, p 22.

3 HOW DOES IT WORK?

If better transparency is the key to better policy and therefore better outcomes, just how does it work in a modern democratic society? It turns out that transparency works through different channels that reinforce each other. Each channel emphasises different aspects of the concept of transparency outlined in the previous chapter.

The end point of a public review of a particular economic policy, whether it is trade policy or something else, is that society, through its government, makes a more informed choice, adopts better policy and becomes better off. At the core of how transparency works is a more informed electorate and elected politicians making policy decisions to reflect the national interest wishes of the electorate. There would be a long list of governments that do not always reflect the wishes of an electorate, but being in government is contestable and if politicians fail to make their electors better off, they can be voted out.

Deeper problems are that the ‘electorate’ is not a homogeneous entity, electoral boundaries and voting rules can give undue influence to narrowly focussed groups, and it is costly for electors to become ‘fully informed’ on an issue. This can give rise to narrow vested interest groups that wield undue influence over a government’s policies. Transparency changes this equation in several ways. It identifies the national interest — and exposes the narrow vested interests. It lowers the cost of the electorate becoming informed. And, just as there are some narrow

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vested interests that are the beneficiaries of various government policies, so there are others who bear a disproportionately large burden of the costs of particular policies. That is, transparency can help mobilise counter-veiling forces to narrow vested interests.

Transparency also contributes to a more predictable policy environment, thereby reducing uncertainty faced by investors. Finally, transparency helps build coalitions for reform — that is, it changes the politics behind existing policies and makes beneficial change more likely.¹⁰ These aspects are now discussed.

Identifying the national interest

As already stated, the purpose of government is to shape the rules and regulations in society that shape the incentives people face and therefore determine behaviour and outcomes. Better policies will lead to better outcomes. ‘Outcomes’ can be higher incomes, a more desired distribution, a better environment or something else. The national interest can include any desired measure and trade-offs may have to be made through the political process. But whatever the chosen mix of desired outcomes, governments will not be able to promote the national interest if they do not measure what is in the national interest. The transparent scrutiny of policy does just this, by appraising the economywide benefits and costs of policies. Again, benefits and costs can include ‘non-market’ measures.

‘Economywide’ is an important concept since it implies all upstream and downstream, direct and indirect, effects are taken into account. That is, all ripple effects of a particular policy are considered as they reverberate around an

¹⁰ Even in non-democratic countries such as China there are still political forces and coalitions of interests whereby transparency can play a role in leading to better policies.

economy. The need to measure the economywide benefits and costs in this way is necessary because most policies can have non-obvious secondary effects.

The immediate effects of a policy such as a tariff on imported cars can be seen directly. In this example, the price of imported cars will rise by the amount of the tariff. Consumers will switch to purchasing domestic cars and the increased demand will see their prices rise, making local producers better off. But the effects of the policy do not stop there. Other effects are much harder to gauge. The higher cost of cars impacts on consumers and they have less to spend on other goods and services, so sales of these decline. But spending on which goods and services decline and by how much? And cars are used by businesses so business costs rise and their competitiveness falls, particularly those exposed to strong competition on export markets. On top of that there is the resource question to consider: as the car industry expands under its new tariff protection it will draw labour and capital away from other industries, which will contract. How many jobs will be lost in other industries? Then there is the effect of the tariff revenue that is raised by government and how that is spent. On top of that there may be social and environmental issues to be measured. All of these effects, and more, matter and must be considered against the direct benefit to the domestic car industry from the tariff. The importance of an economywide assessment of economic policies and examining all secondary flow-on effects cannot be overstated. Indeed, Hazlitt claims in his book *Economics in One Lesson* that ‘nine-tenths of the economic fallacies that are working such dreadful harm in the world today are the results of ignoring this lesson [of looking at the secondary consequences].’¹¹

¹¹ Hazlett, H. 1979, *Economics in One Lesson*, Three Rivers Press, New York.

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Measuring the economywide costs and benefits of policies may seem complex and daunting but fortunately, methodology and technology have come a long way. Laptop computers can now run economywide models — many of which can be obtained ‘off-the-shelf’. The World Bank for example, routinely uses the GTAP model, which is continually being enhanced.¹²

The critical concept here is that to make sensible decisions on policies that are in the national interest it is necessary to measure the national interest. The advantage of economywide models that have strong microeconomic foundations is not that a particular view of how an economy works as expressed in the model is ‘right’ but rather the model gives a shorthand way of ensuring there is a consistent framework for ensuring that all effects — on consumers, on business costs, revenue impacts, exchange rates, labour and capital markets — are systematically considered. And a formal model allows repeatability and the ability to test the robustness of the results.

Information and education

A review of a particular policy that is conducted independently, repeatedly and publicly also achieves something else: it educates government policymakers and the public alike as to how a particular policy works, what is in the national interest and why. Typically, good public governance processes will involve the distribution of an issues paper to spell out the issues behind a particular policy review. Submissions from interested parties will be invited.

¹² More on the GTAP model and its uses can be found by visiting their website on www.worldbank.org. A good example of the use of this model by the World Bank on trade policy evaluation can be found in Anderson, K. and Martin, W. (eds) 2006, *Agricultural Trade Reform & The Doha Development Agenda*, a co-publication of Palgrave MacMillan and the World Bank

Public hearings will be held whereby all evidence and considerations will be put forward. Ideally, a draft report will be produced for the public to comment on and more feedback received. The media are likely to report on the various goings-on. Through this process the policymakers within government and the public more generally become engaged and increase their knowledge of a policy question. This heightened awareness will also reflect itself through the political process. The end result is that better choices about which course of action to follow will be made, the national interest will be served and society made better off.

The role of education as a result of good domestic transparency should not be underestimated. Many mistakes are made in trade policy. The most glaring mistake would be the ‘exports good, imports bad’ mentality. Many people wrongly believe that imports cost jobs and lower welfare and that granting access to one’s markets should be hotly resisted. Countries are reluctant to make ‘concessions’ at rounds of negotiations over reductions in trade barriers, demanding that other countries open their markets to the country’s exports. But everyone playing this game means nothing is put on the negotiating table. That means there is nothing to take from the table.¹³ That means there is no deal and is the principal reason why the Doha round of talks has faltered.

If trade talks are based on the mistaken belief that exports are good but imports bad, how did previous rounds of trade talks work? Clive Crook makes this observation that governments were able to build coalitions of winners — namely, exports seeking lower barriers overseas — to face off domestic protectionist interests.¹⁴ And it worked but it

¹³ This argument is put most eloquently by the Tasman Transparency Group in *An Initiative to Strengthen the WTO*, July 2006. www.tasmantransparencygroup.com.

¹⁴ Crook, C. 2006, ‘The Fruitful Lie’, *The Atlantic Monthly*, October.

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was, as Clive Crook describes it, a ‘fruitful lie’. The problem is that trade agreements are now failing because leaders have come to believe their own lies. The remedy is to educate policymakers and the electorate about the real source of the gains from trade.

We know the ‘exports good, imports bad’ mentality prevails because in practically every country and department of trade in the world there are programs, supports, publicity and so forth to promote exports. Nowhere are there programs to promote imports. Yet the whole purpose of economic activity is to consume — it is the means by which people feed, house and clothe themselves. Imports add to consumption and give consumers better value for money — that is why imports win market share from domestically produced goods and services. Imports are the ‘good’ thing. They enhance welfare.

The trouble is, to afford the good imports something has to be sold in exchange. So exports are good too — but *only* because they are necessary to pay for the valuable imports. Exports take effort and consume resources. They are costly to produce. But the mercantilist idea to just produce and sell exports without buying anything in return would be like being marooned on a desert island with a bucket of gold.

Good domestic transparent reviews of trade policy will make correct economic reasoning more obvious to a wider public and a larger group of policymakers. As stated elsewhere, ‘...there are three ways to solve the problem of [trade policy] reform — educate, educate, educate’.¹⁵ Transparency fulfils an important role in education and is one of the main channels by which transparency works.

¹⁵ Stoeckel, A. 2000, *Solving the Problem, A Look at the Political Economy of Agricultural Reform*, Banff 2000, prepared for Cairns Group Farm Leaders meeting, Banff, p 49.

Countering obfuscation

Related to the issue of information and education is the tendency for policymakers to substitute obvious barriers to trade like tariffs for more subtle, hidden and complex non-tariff barriers. Politicians, as Daniel Kono argues, indulge in ‘optimal obfuscation’ as they use trade barriers that are hard for the electorate to see and assess.¹⁶ Kono’s argument is that voters prefer liberal trade policies that lower prices and raise real incomes. Since politicians need voters, democracies should lead to freer trade than say autocracies. But the argument relies on voters having sufficient information to discipline politicians. So politicians replace transparent barriers with less transparent ones. Kono finds that democracy does lead to lower tariffs but higher non-tariff barriers. Politicians protect vested interests while maintaining a veneer of liberalisation. Transparent policy reviews are needed to counter this tendency to obfuscate policies by resorting to opaque measures.

Identifying vested interests

Vested interests are powerful. When particular groups stand to gain from a particular policy, they have an incentive to devote lobbying resources to influence government policy in their favour. Often these groups can be narrowly focussed, such as car manufacturers or dairy or rice farmers. The arguments they use to justify their favoured treatment, which is often a trade barrier to restrict imports, is variously ‘jobs will be lost’, ‘national security jeopardised’, ‘national self-sufficiency threatened’, ‘support for low farm incomes is needed’, or ‘the look of the countryside has to be preserved’. There are many more.

¹⁶ Kono, D.Y. 2006, ‘Optimal Obfuscation: Democracy and Trade Policy Transparency’, *American Political Science Review*, Vol. 100, No. 3, August.

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These arguments often win the day because it is not worth a much wider diffuse group of people — namely consumers — who individually bear a tiny burden of the bad policy to organise themselves and counter the arguments. After a while, populations even believe some of the mantra such as preserving the look of the countryside. And a thorough review may establish that society does place some value on, say, preserving the look of the countryside. But in nearly every case examined, these arguments have a fatal flaw: they do not use first best policies to achieve their ends. If the Swiss people like to drive around and look at cows eating grass on the hillsides, first best policy is to subsidise the activity ‘cows eating grass on the hillside’. Instead, they choose to put a tariff on imports of dairy products and subsidise milk production, thereby encouraging farmers to keep cows grazing the hillsides. But this is very indirect — and it does not necessarily achieve its goal. Farmers can feed cows on grain inside barns. And enormous resources are consumed producing dairy products. Besides which, the burden falls on consumers of dairy products and they may be quite different to the group of people wanting to preserve the look of the countryside. By paying farmers directly from the national budget for each cow grazing the hillside, money can be saved. The Swiss people could have more cows grazing hillsides for less — a clear gain.

So why don't Swiss authorities use this superior policy to achieve the stated ends? Why do they choose the indirect means of transferring payments to farmers through border restrictions? The answer is that if payments were direct and obvious through the government's budget, which comes under national scrutiny each year, they would not be tolerated. Logically, the policy of restricting dairy imports owes its existence on deception. The policy does not receive annual public scrutiny. The electorate is not fully aware of the cost of the policy, or the better choices they

could make. Making the costs of policies more transparent will expose the vested interests of the Swiss farmers and the dairy products industry.

While vested interests can be powerful, they do have a weakness. They can be exposed. One of the main weapons to limit the power of vested interests is to identify and explain them through transparent scrutiny. Once exposed, when narrow vested interests argue for the retention of policies that favour themselves, their arguments are more likely to be discounted, if not dismissed.

A more certain policy environment

Transparency helps economic growth in another more subtle way. Once transparent reviews of the economic benefits and costs become the ‘norm’ and become the basis for policy decisions, policy changes become more predictable to business. Businesses are capable of working out what is in the national interest and what is self-serving pleading.

Two consequences follow. One is that it is easier for government to resist special pleading when they appeal to the national interest; it will be clear that the favours sought by an industry will simply be at the expense of some other group. Second is that business leaders, aware their vested interests will be exposed publicly and special pleading likely to be countered, will reduce their lobbying efforts for political favours. Outcomes should be more predictable and other businesses have to expend less on lobbying government to make sure rules are not changed against their interests.

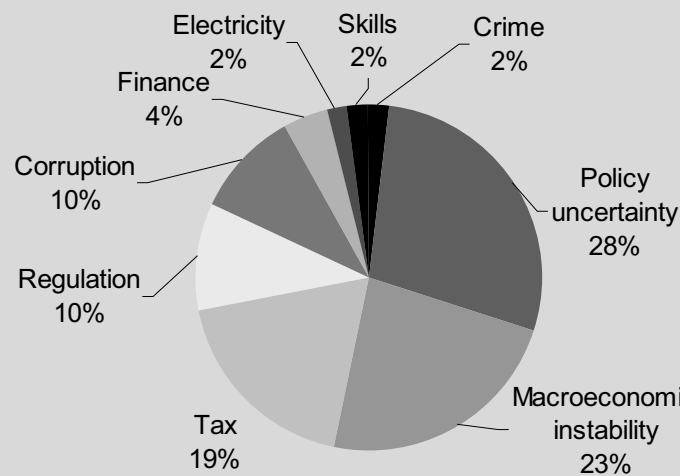
Transparency is therefore likely to lead to a more predictable policy environment. This effect can be most important in improving the investment climate, since there

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is nothing that chills the incentive to invest like uncertainty. Indeed, research by the World Bank into the concerns of firms about the investment climate found that the single most important concern was policy uncertainty as shown in chart 2.

The World Bank found that concern over policy uncertainty was far more important to business investment than concerns over issues such as corruption, regulation and tax. By establishing clear criteria on how policy will be set, namely the national interest, transparency of policy helps create a better investment climate than otherwise and leads to better outcomes.

2 Policy uncertainty dominates the investment climate concerns of firms



^a Share of countries where firms report issues as top constraints in surveys of 48 countries.

Source: World Bank Development Report 2005, *A Better Investment Climate for Everyone*, p. 46.

Establishing coalitions for reform

Often the inability of policymakers to reduce trade barriers is put down to a 'lack of political will'. The argument is

made that the narrow vested interests of the gainers dominates the diffuse, individually small but collectively large losses by the losers. In identifying gainers and losers from policies, transparency has the related effect of encouraging other groups bearing the burden of unnecessarily costly policies to coalesce around the idea of reform. Transparency changes ‘political will’.

Narrow vested interest groups revisited

A common explanation for the lack of trade reform (or other costly policies for that matter) is that the beneficiaries of reform are widely dispersed and unorganised, but the gainers from protection are concentrated, so these people are highly organised and lobby hard for protection. The widely dispersed beneficiaries from liberalising trade are also not fully informed on the gains from change because it does not pay them to be so informed. The political bias is therefore for no change.

Transparency can change this equation. Transparency identifies those bearing the burden, lowers the costs of these groups becoming informed and encourages them to coalesce around the notion of policy reform. A good example is Australia’s unilateral liberalisation of trade. In Australia, the car and textile industries received high levels of protection from a high level of tariff support.¹⁷ The two industries lobbied hard for the retention of their protection and for a long time won. The beneficiaries of reform were widely dispersed throughout the economy (consumers and other industries using cars and textiles as inputs). So what happened to cause Australia to unilaterally reduce its support for its highly protected industries? It was the systematic and repeated economywide analysis of the pol-

¹⁷ See Pearce, D. and Stoeckel, A. 1996, *One shoe per person: Explaining the Hidden Trade-Offs in Protection Policy*, Centre for International Economics, Canberra, for a brief history of the policy and its cost.

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icies of protection through an independent, open process of transparency conducted by Australia's Industries Assistance Commission. These elements were sufficient to change the politics of protection in Australia to the great economic benefit of the nation.

In other countries, protectionist policies blatantly persist in the face of countless studies, including those by respected institutions such as the OECD, IMF and World Bank that show enormous benefit from liberalised trade. Policy makers in the United States, Japan, the European Union and others are all aware of the research showing billions of dollars of gain to the world including developing countries if they liberalise trade. They have all read the research or have been advised of the findings that millions will be lifted out of poverty if trade could be liberalised.

Most leaders, policymakers and negotiators know what should be done. Yet protection remains. These leaders, negotiators and policymakers cannot do the right thing because the domestic political situation will not allow it.

The trade protection problem is a *political* problem. Solving this political problem requires a political solution. The politics of protection has to change, and transparency helps to do this.

Key points

To develop better policies that serve the national interest it is necessary to assess the national interest. Good transparent review of policy does that.

To make more informed choices between policies that make societies better off, people have to be informed and educated on the effects of those policies.

3 HOW DOES IT WORK?

One of the main blocks to introducing better policies is the undue power and influence that narrow vested interests can wield. Transparency exposes these vested interests and weakens their power and influence.

Those groups bearing the burden of bad policy often are not organised because they are not always aware they are being disadvantaged and the individual costs of becoming informed are not worth the perceived benefits. Transparency identifies those bearing the burden, lowers the costs of these groups becoming informed and encourages them to coalesce around the notion of policy reform. That is, transparency changes the politics of protection and makes reform more likely.

Finally, one of the main concerns facing businesses is policy uncertainty. Political processes are unpredictable since it is not always clear who has influence and who doesn't. Transparent reviews of policy, conducted through good public governance, contribute to policy outcomes that are based on a more rational and therefore predictable basis.

These are the mechanisms by which transparency works. If transparency offers such gains then how is it actually applied around the world? That question is addressed next.

4 WHO DOES IT BEST IN DOMESTIC CAPITALS?

Policy processes and the level of transparency within those processes vary widely across countries. There are two levels of transparency. Firstly, there is the transparency within each country's domestic policy process. And secondly, there is the transparency provided by outside scrutiny of those same domestic policies from international organisations, such as the OECD, the World Bank and the WTO.

In this chapter, we assess the transparency of domestic policy processes in selected countries against the framework criteria developed in chapter 2. In the next chapter, the framework is used to assess the transparency provided by international organisations. We focus on trade policy as a common area of policy to assess how transparency varies across jurisdictions. However, it is recognised that a range of domestic policies and regulations also affect trade. Where appropriate, we therefore also comment on the transparency of domestic policy processes more broadly.

The selected countries for the review are:

- Australia;
- the United States;
- the European Union¹⁸;

¹⁸ The European Union has a common trade policy and is therefore assessed as a single entity.

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- China;
- Japan;
- Canada; and
- Indonesia.

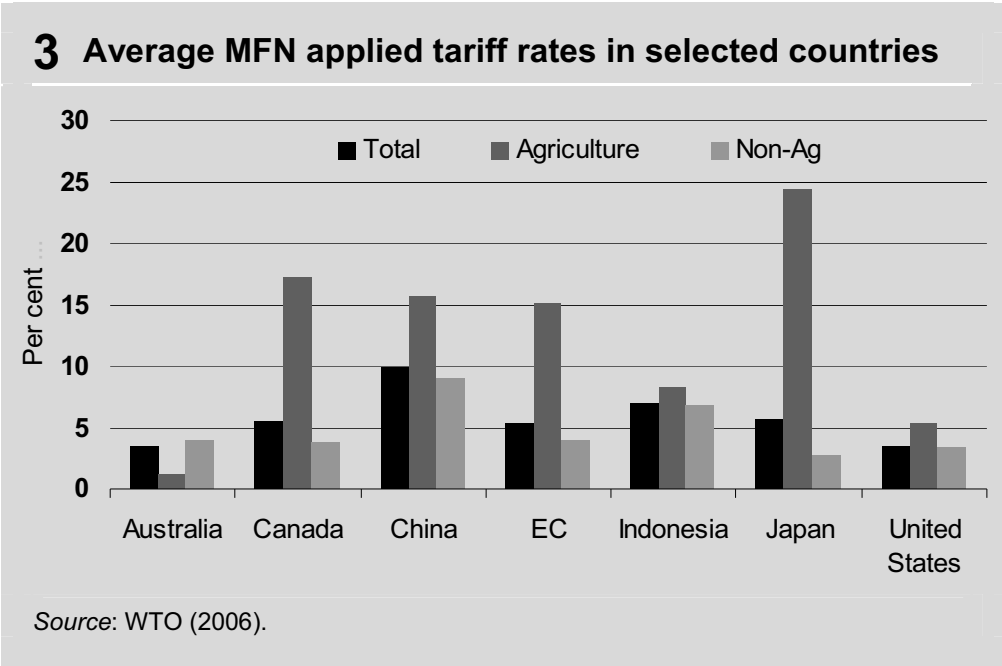
The selected countries include the world's largest trading nations. The simple average most favoured nation (MFN) tariff rate in each of the selected countries is shown in chart 3. Of the selected countries, average tariff rates are lowest in Australia and the US, both at 3.5 per cent. Tariff rates are highest in China and Indonesia, although Indonesia's trade policy regime is generally more open than other countries in the region. It is also clear that in all countries, except Australia, tariffs on agricultural goods are significantly higher than on non-agricultural goods. Agriculture tends to be a politically sensitive sector. A litmus test of transparent policy processes is therefore what analyses have been done on agriculture and how open is the agricultural sector of the country.

Domestic policy processes

Australia

The WTO, OECD and the Olivier Long Study Group all make mention of Australia's highly transparent and beneficial trade policy arrangements.¹⁹ The primary institutional arrangement responsible for the transparent evaluation

¹⁹ WTO 2007, *Trade Policy Review Australia 2007*, Report by Secretariat., Geneva; OECD 2005, *Policy Brief, Economic Survey of Australia*, 2004, January; Olivier Long, 1989.



of trade policy is the statutory legislation establishing and underpinning the operations of the Productivity Commission. The Productivity Commission has evolved from other institutions and this evolution is instructive in itself.

A potted history of the Productivity Commission is given in table 4. The institution evolved out of the Industry Commission and before that the Industries Assistance Commission. The Industries Assistance Commission evolved from the Tariff Board, which had existed from 1921.

The Tariff Board had some positive transparency aspects.²⁰ It had statutory independence, held public inquiries and a referral was required before the government could change

²⁰ Banks, G. and Carmichael, B. 2007, *Domestic Transparency in Australia's Economic and Trade Reform: The Role of 'The Commission'*, presented to the Lowy Institute and Tasman Transparency Group Conference, Enhancing Transparency in the Multilateral Trading System, 4 July 2007, Sydney.

4 WHO DOES IT BEST IN DOMESTIC CAPITALS?

4 Evolution of the Productivity Commission and its key features

<i>Institution</i>	<i>Key features</i>
Tariff Board 1921 – 1973	<ul style="list-style-type: none"> Ad hoc reviews in response to demands for increased protection. No economywide analysis. Statutory independence but reporting to industry department and no policy coherence.
Industries Assistance Commission 1974 – 1990	<ul style="list-style-type: none"> Wider remit to examine and encourage economic efficiency. Better policy coherence with assistance measures integrated with national economic policy. Statutory independence and transparent public scrutiny of policy embedded in legislation. Quantitative economywide analysis with national interest focus. Portfolio responsibility shifted from Prime Minister and Cabinet through several portfolios including Industry and Commerce to finally reside with Treasury.
Industry Commission 1990 – 1998	<ul style="list-style-type: none"> Establishment foreshadowed in 1989 to become the Government's major review and inquiry body in industry matters. Core features of statutory independence, transparency and economywide national interest perspective strengthened. Policy coherence enhanced with broader microeconomic reform agenda. More significant cuts to protection announced in 1991.
Productivity Commission 1998 onwards	<ul style="list-style-type: none"> Established from merger of Industry Commission, Bureau of Industry Economics and Economic Planning Advisory Commission. More policy coherence. Principal advisory body on all aspects of microeconomic reform. Broad remit to engage industry and community groups in public policymaking. Core features of statutory independence, transparency and economywide focus retained.
<p><i>Source:</i> Based on Productivity Commission 2003, <i>From Industry Assistance to Productivity: 30 Years of 'The Commission'</i>, Productivity Commission, Canberra.</p>	

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tariffs. But references were usually made in response to special pleading by industry. There was no economywide focus on the national interest and the Board reported to a department of industry. As the former Chairman of the Tariff Board, Alf Rattigan, noted in 1986, the functions of the Board were ‘to a large extent controlled from behind the scene by the Minister and his Department [Trade and Industry]’.²¹

The formation of the Industries Assistance Commission in 1974 was a major step forward for the transparent public analysis of trade policy and, as will be seen, for economic policy more generally in Australia. The three core design features of the Industries Assistance Commission charter are explained in depth by Banks and Carmichael.²² They are statutory independence with transparency elements embedded in legislation; transparency with statutes requiring public hearings; and economywide analysis with national economic efficiency as the policy goal.

There were problems faced by the Industries Assistance Commission in fulfilling its charter.²³ Sometimes references were ‘loaded’. For much of the time, the Commission had to report to an industry portfolio with a sectoral focus. And the Commission was starved of referrals at a time when their power to initiate their own references was removed.

²¹ Rattigan G. A. 1986, *Industry Assistance: The Inside Story*, Melbourne University Press, Melbourne.

²² Banks, G. and Carmichael, B. 2007, *Domestic Transparency in Australia’s Economic and Trade Reform: The Role of ‘The Commission’*, presented to the Lowy Institute and Tasman Transparency Group Conference, Enhancing Transparency in the Multilateral Trading System, 4 July 2007, Sydney.

²³ Productivity Commission 2003, *From Industry Assistance to Productivity: 30 Years of ‘The Commission’*, Productivity Commission, Canberra.

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5 Australia – assessment of trade policy transparency

<i>Transparency criteria</i>	<i>Comments</i>
Transparency	<ul style="list-style-type: none"> ▪ Transparency aspects embedded in legislation.
Coherent policies in the national interest	<ul style="list-style-type: none"> ▪ Broad remit to consider all policy areas affecting national economic efficiency.
Economywide cost benefit analysis	<ul style="list-style-type: none"> ▪ The Productivity Commission is required to consider economywide costs and benefits.
Credible believable findings	<ul style="list-style-type: none"> ▪ The Productivity Commission is required to consider external submissions and hold public hearings. Public consultation ensures all viewpoints are considered and plays an educative role. ▪ Typically, an issues paper is released, prior to inviting submissions. More importantly, a draft report is released for public scrutiny and feedback after submissions have been received, but before the report and recommendations are finalised.
Independent, contestable review	<ul style="list-style-type: none"> ▪ Statutory independence from the executive branch of government. ▪ Important policy decisions, such as unilateral trade policy decisions, are often referred to the Productivity Commission. ▪ In both Productivity Commission reports and commissioned reports from consultants, methodology and data used are clearly stated.
Systematic review of all areas over time	<ul style="list-style-type: none"> ▪ The questions on which the Commission provides advice are largely determined by the Government. The Productivity Commission does not have the power to initiate its own inquiries, though it can, under statute, initiate its own research.
Findings a formal input into government policy	<ul style="list-style-type: none"> ▪ Productivity Commission inquiries are formally considered by government and tabled in Parliament. While, there is no formal requirement for the Government to implement the recommendations or even justify why the recommendations have been rejected it is obliged to account for what it does.

Source: TheCIE.

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But the transfer back to the Treasury portfolio in 1987 heralded the Industries Assistance Commission's revival and creation of the Industry Commission in 1990.

The now Productivity Commission has a wider scope for policy evaluation than its predecessors and greater ability to evaluate policy coherently. Initially, the focus of the Industries Assistance Commission was on trade policy and manufacturing. Around 80 per cent of the Industries Assistance Commission's activities related to assistance for manufacturing industries.²⁴ But, as Banks and Carmichael note, 'these days, around 80 per cent of Productivity Commission inquiries relate to cross-sectoral, infrastructure, social and environmental policy issues'.²⁵

Another evolutionary feature has been the ongoing statutory independence, transparency and economywide analysis. But independence has not been unfettered. Although never used, the Industries Assistance Commission lost the power to initiate its own inquiries in 1984. Currently, the Australian Government determines the policy questions the Commission will address in its inquiries. But the Productivity Commission now has the explicit statutory power to initiate its own research, short of the powers of a formal inquiry. Self-initiated research can add scrutiny to government policy, though not to the same extent as a formal inquiry. With its broader remit, it may not be appropriate to permit the Commission to initiate an inquiry into any policy issue. However, it would improve the transparency of trade policy if the Commission could initiate its own inquiries into industry assistance; or if the requirement for the Government to seek a report from the

²⁴ Banks, G. and Carmichael, B. 2007, *Domestic Transparency in Australia's Economic and Trade Reform: The Role of 'The Commission'*, presented to the Lowy Institute and Tasman Transparency Group Conference, Enhancing Transparency in the Multilateral Trading System, 4 July 2007, Sydney.

²⁵ Banks and Carmichael 2007.

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Commission before providing any new assistance to industry were reintroduced. Also, the experience has been that the portfolio the Commission resides under matters: it is important for the Commission to report to a 'national interest' portfolio such as Treasury or Prime Minister and Cabinet.

The upshot of Australia's experience with a well-functioning transparency body has been, unlike other major OECD countries, a unilateral liberalisation of trade in Australia.²⁶ The transparency of Australia's trade policy is summarised in table 5.

The United States of America

The United States is best described as a freely trading nation with an average tariff rate of 3.5 per cent in 2006.²⁷ Responsibility for developing and co-ordinating US international trade and direct investment policy falls with the Office of the United States Trade Representative (USTR). The Office of the USTR is part of the Executive Office of the President and the head of the Office is a member of the Cabinet. Formally, the Congress has ultimate authority to regulate trade with foreign nations. The Office of the USTR therefore provides regular briefings to various congressional committees. In particular, US trade proposals are extensively reviewed by the House Ways and Means Committee. The President has the responsibility and

²⁶ A point made in three separate papers. See Banks, G. 2005 Structural Reform Australian-style: Lessons for others, presentation to the IMF and World Bank, May, and Garnaut, R. in Bhagwati, J. 2002 *Going Alone, The Case for Relaxed Reciprocity in Freeing Trade*, p. 164 and Bhagwati, J. 2002 *Free Trade Today*, Princeton University Press.

²⁷ WTO, ITC and UNCTAD 2007, *World Tariff Profiles 2006*, http://www.wto.org/english/res_e/booksp_e/tariff_profiles06_e.pdf, Accessed 26 November 2007.

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authority to negotiate and conclude agreements with foreign governments.

The Office of the USTR consults with other government agencies through the Trade Policy Review Group and the Trade Policy Staff Committee. The National Economic Council may also consider important issues, related to trade.

The organisation most responsible for transparency of trade policy in the United States is the International Trade Commission (USITC). At times, other agencies such as the Government Accountability Office (GAO) may also comment on trade-related issues. While the GAO has scrutinised US trade policy decisions, the focus of the organisation is more of an auditing role of all government budget expenditures. Many trade distorting policies are off-budget, hence their appeal. It is the USITC that primarily undertakes economywide analysis of trade policy in the United States. It is therefore the USITC that provides transparency within the meaning discussed earlier.

The USITC was established in 1974 and is an independent Federal agency. The USITC's main role is to administer US trade remedy law. Indeed, over a third of its activities are to investigate the effects of dumped and subsidised imports on domestic industries. The problem with these anti-dumping inquiries is that they are one-sided affairs: they only look at the costs that dumping imposes on domestic industries. They do not look at the wider benefits to the community from cheaper imports and hence fuel the mistaken 'imports bad' view. This deficiency could be remedied, as Carmichael notes, by adding the requirement to look at economywide effects to the USITC's charter.²⁸

²⁸ Carmichael, B. 2005, *Trade Policy at the Cross-Roads*, Australia-Japan Research Centre, Asia Pacific School of Economics and Government, Australian National University, Canberra, p. 33.

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The problem is that the USITC takes a legalistic view of trade issues rather than an economic one. But the whole basis of trade is economic. Finger also makes this same point about antidumping policy. He says '[It] is a witches' brew of the worst of policy making: power politics, bad economics, and shameful administration.'²⁹ The USITC's charter perpetuates bad economics and part of its work at least is the antithesis of good domestic policy transparency. Finger also notes that 'The most appealing option is to get rid of antidumping laws and to put nothing in their place'.³⁰

The USITC also has a key role in providing trade policy advice to both the executive and legislative branches of government to 'facilitate the development of sound and informed US trade policy'.³¹ Clearly it has not achieved that goal in the case of antidumping policy nor in other protected areas such as agricultural policy. There is a lack of coherence between the USITC's role in encouraging reform of bad trade policies and its role in administering some of these same policies. By contrast, Australia's antidumping laws are administered by the Australian Customs Service. Like those of the United States, Australia's antidumping laws only look at one side of the dumping equation — the costs to local industry. They therefore favour domestic protectionist interests. But even though Australia's antidumping policy is bad policy, it is administered outside the Productivity Commission and therefore does not compromise the Commission's policy coherence and the credibility of the institution.³²

²⁹ Finger, J. M. 1993 *Antidumping, How it Works and Who Gets Hurt*, University of Michigan Press, Ann Arbor, p. 57.

³⁰ Finger, J. M. 1993, p. 57.

³¹ United States International Trade Commission, *Budget Justification FY2008*, p. 1.

³² Like the USITC, the Productivity Commission does conduct some safeguard investigations such as the safeguards inquiry into the importation of pigmeat

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Nevertheless, the trade policy advice functions of the USITC provide some transparency to US trade policy. The USITC produces self-initiated studies and studies at the request of the President or the Congress under various Federal Acts. The USITC also publishes working papers and staff research, as well as a number of journals, including the *Journal of International Commerce and Economics* and the *International Economic Review*. The USITC notes itself that it ‘makes most of its information and analysis available to the public to promote understanding of international trade issues’.³³ Many of the reports are available to the public, but some have remained confidential. Others have had confidential national security information and confidential business information removed from the publicly available version; in some cases, the removal of this information leaves little information remaining in the public report.³⁴ The organisation can not, therefore, be considered fully transparent.

The USITC’s publicly released findings are generally perceived as credible and believable. The USITC has statutory independence from the executive branch of government. Its funding arrangements are specified in legislation, which enhances its independence. The USITC also has recognised expertise in trade matters. In preparing its reports, the USITC receives external submissions and holds public hearings. This stakeholder engagement can help build credibility; people are much more likely to perceive the finding as credible if their opinions have been considered. The methodology and the theoretical structure of the models used by the USITC in conducting its analysis are clearly

(Productivity Commission 2007, *Safeguards Inquiry into the Import of Pigmeat, Accelerated Report*, No. 42, 14 December).

³³ United States International Trade Commission, *Budget Justification FY2008*, p. 1

³⁴ See for example USITC 2007, *Certain Sugar Goods: Potential Economic Effects of Tariff Elimination under NAFTA for Goods of Mexico*, Investigation No. 332-490, Publication 3928.

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specified. The results are therefore replicable and contestable.

However, the USITC's review of trade policy is not systematic. The USITC is generally only required to provide an assessment of the likely economic impacts of *changes* to trade policy, such as proposed preferential trade agreements. There is rarely a systematic review of the costs and benefits of *existing* trade policies. The closest the USITC comes to a systematic review is its periodic assessment of the economic effects of significant US import restraints. The USTR first requested the USITC to undertake such an investigation in 1992. The original report was published in 1993 and has been updated every few years since. In the most recent update, the national interest was quantified in terms of the increase in welfare, defined as public and private consumption. The evaluation uses a general equilibrium framework, ensuring that all benefits and costs are included. The USITC found that welfare would be US\$3.7 billion higher annually if the US unilaterally removed these import restraints.³⁵

But even this review is not truly systematic. The USTR explicitly requests the USITC to omit import restraints resulting from antidumping and countervailing duty investigations. Also, only border barriers to trade are considered. Other trade-distorting policy measures such as subsidies provided to the agricultural sector are therefore not systematically reviewed in an economywide context.

A further weakness of transparency arrangements in the US is that the USITC can only make formal recommendations on trade remedy reviews. It cannot formally recommend that industry assistance be reduced; it can only provide an assessment of the likely economic impacts of changes to

³⁵ USITC, 2007, *The Economic Effects of Significant US Import Restraints: Fifth Update 2007*, Investigation No. 332-325, Publication 3906, p xvii.

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trade policy. This lack of formal recommendations makes it easier for the administration to ignore politically inconvenient findings. The transparency of the United States' trade policy is summarised in table 6.

The European Union

The larger European economies, such as Germany, the United Kingdom, France and Italy, are among the world's largest trading nations in their own right. Within the European Union, goods, services, labour and capital are allowed to move freely. EU members also have a common trade policy with the rest of the world. While each member's domestic policies will also affect trade, the trade policy process is nevertheless examined for all EU countries as a single entity.

The Commission of the European Union (the European Commission) is the executive body of the EU and is responsible for proposing legislation to the European Parliament and the Council of the European Union (the Council). The European Commission also represents the EU in trade negotiations.³⁶ The transparency of the EU's trade policy process is summarised in table 7.

The objectives of the EU's trade policy are stated in the EU Treaty. The EC common policy aims to 'contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers'.³⁷ The average applied MFN tariff rate was around 5.4 per cent in

³⁶ WTO 2007, *Trade Policy Review: European Communities*, p 16.

³⁷ WTO 2007, *Trade Policy Review: European Communities*, p 19.

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6 United States – assessment of trade policy transparency

<i>Transparency criteria</i>	<i>Comment</i>
Transparency	<ul style="list-style-type: none"> ▪ Transparent but not all reports released to public.
Coherent policies in the national interest	<ul style="list-style-type: none"> ▪ Some conflict between USITC's role as a trade policy advisor and in administering protectionist trade remedy laws. ▪ Only looks at trade policy and not behind-the-border issues affecting trade. ▪ Relatively open trade regime, but maintains barriers to trade in sensitive areas, notably agriculture.
Economywide cost benefit analysis	<ul style="list-style-type: none"> ▪ An economywide analysis framework is generally used to analyse trade policy. ▪ USITC considers only costs in dumping cases and ignores national benefits.
Credible believable findings	<ul style="list-style-type: none"> ▪ USITC is a professional organisation with a reputation for high quality work. ▪ USITC invites external submissions and holds public hearings.
Independent, contestable review	<ul style="list-style-type: none"> ▪ USITC has statutory independence from the executive branch of government. Its budget is also outside the control of the President's Office of Budget Management. ▪ The methodology and data used by the USITC is clearly stated. Findings are replicable.
Systematic review of all areas over time	<ul style="list-style-type: none"> ▪ The costs and benefits of some significant import restraints are periodically quantified. However, not all import barriers are included. ▪ US participation in the WTO is periodically reviewed.
Findings a formal input into government policy	<ul style="list-style-type: none"> ▪ While the USITC makes formal recommendations on trade remedy reviews, it does not have the power to formally recommend that industry assistance be reduced. This makes it easier for the government to ignore politically inconvenient findings.

Source: TheCIE.

7 European Union – assessment of trade policy transparency

<i>Transparency criteria</i>	<i>Comments</i>
Transparency	<ul style="list-style-type: none"> Trade policy analysis is transparent but has multiple criteria and only reviews proposed changes, not existing policy.
Coherent policies in the national interest	<ul style="list-style-type: none"> Trade Sustainability Impact Assessments (SIAs) are undertaken for all of the EU's major trade negotiations. More broadly, a general Impact Assessment is carried out for every major regulatory proposal. SIAs are required to look at the potential effects both in the EU and in the countries or regions with which the EU is conducting negotiations.
Economywide cost benefit analysis	<ul style="list-style-type: none"> Trade SIAs seek to assess the economic, social and environmental impacts. They are economywide but have no clear 'national interest' test
Credible believable findings	<ul style="list-style-type: none"> All studies are available publicly. Stakeholders are consulted at each major stage of the Trade SIA methodology.
Independent, contestable review	<ul style="list-style-type: none"> SIAs are carried out by independent external consultants. Methodology is clearly stated. Results are replicable and contestable.
Systematic review of all areas over time	<ul style="list-style-type: none"> Only <i>changes</i> to trade policies are considered. The benefits associated with unilaterally dismantling trade barriers are <i>not</i> reviewed. SIAs are undertaken for all major trade negotiations.
Findings a formal input into government policy	<ul style="list-style-type: none"> The Commission drafts a paper setting out its response to Trade SIAs.

Source: WTO, European Commission, TheCIE.

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2006; however, agricultural tariffs remain high. The average tariff rate on agricultural products was 15.6 per cent in 2006.³⁸

Trade Sustainability Impact Assessments (SIAs) are carried out for all the EU's major trade negotiations.³⁹ Trade SIAs provide significant transparency to the EU's trade policy. Importantly, this impact assessment process applies more broadly to non trade-related policy areas, with a general Impact Assessment undertaken for every regulatory proposal on the Commission's agenda. Nevertheless, some weaknesses in the process mean it is less likely that these Trade SIAs will provide the impetus for trade reform.

The key strengths of the Trade SIA process in improving the transparency of trade policy are highlighted below.

- Trade SIAs seek to identify the potential economic, social and environmental impacts of a trade agreement. Trade SIAs are therefore required to consider economywide costs and benefits.
- Trade SIAs are undertaken by independent consultants with expertise in trade policy analysis. This should ensure that the findings are not influenced by narrow interest groups. Consultation with stakeholders is required at each major stage of the process. The methodology used by the consultants is clearly stated in the reports and all reports are publicly available. The findings are therefore contestable, credible and believable.
- Trade SIAs have been integrated into the decision-making process. The Commission is required to publish

³⁸ WTO, ITC and UNCTAD 2007, *World Tariff Profiles 2006*, http://www.wto.org/english/res_e/booksp_e/tariff_profiles06_e.pdf, Accessed 26 November 2007.

³⁹ For details of this process, see European Commission: External Trade 2006, *Handbook for Trade Sustainability Impact Assessment*, http://trade.ec.europa.eu/doclib/docs/2006/march/tradoc_127974.pdf, Accessed 25 November 2007.

a response to each Trade SIA. This ensures that each Trade SIA is formally considered by decision-makers.

However, the Trade SIA process also has a number of weaknesses, which make it less likely to produce better trade policies. Trade SIAs have no clear criterion capturing what is in the national interest. A range of indicators is chosen for each Trade SIA based around key sustainability themes. Three economic, three social and three environmental themes were originally identified in the Trade SIA methodology in 1999, though these can be complemented by additional themes to fit a specific Trade SIA.⁴⁰

The problem with ‘triple bottom line’ analyses is that they can easily lead to confusion in trying to meet multiple objectives with one instrument (in this case tariff policy). But you can’t ‘kill two birds with one stone’. Tariff policy can only attempt to meet a single objective. Environmental issues are best dealt with by good environmental policies. Social goals are best delivered by good social policies. The issue is *not* that there are legitimate social or environmental goals that society, through its freely elected governments, wants to pursue. The issue is that the policy response to these external effects — say the impact on pollution — should be to ‘internalise’ these externalities by say imposing a pollution tax. That is, the purpose of government should be to reflect these other broader aspirational goals of society through the best direct policies that achieve their ends at least cost. When this is done well, all external effects are reflected in the single bottom line. To do otherwise, if external effects are correctly priced through markets, as many are, is to double count.

⁴⁰ European Commission: External Trade 2006, *Handbook for Trade Sustainability Impact Assessment*, http://trade.ec.europa.eu/doclib/docs/2006/march/tradoc_127974.pdf, Accessed 25 November 2007, p. 28.

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While the use of Trade SIAs is systematic in the sense that they are required for all trade negotiations, there is no mechanism to highlight the benefits and costs of unilaterally removing existing trade barriers. A Trade SIA is *only* required for policy changes proposed by the Commission. As a result, the Trade SIA process is unlikely to result in the unilateral removal of tariff barriers, as was the case in Australia. To improve transparency, a Trade SIA should be required for all existing policies that restrict trade.

China

China is governed by a non-contestable single party — the Communist Party — and there are extensive restrictions to public discussion through the media. Normally, that may put China in the ‘non-transparency’ camp. But China has made, and is continuing to make, its policy processes more transparent. This was noted by the WTO in its most recent review of China’s trade policy.⁴¹ There is also more evaluation and public discussion of policy than commonly thought. Despite restrictions on media coverage of some issues, information technology developments such as the internet and mobile phone messaging means public discussion of policy issues is on the rise. On some policy issues China is encouraging more transparency in policy making processes. Draft bills are often made public for discussion, and public hearings are held on important policies and legislation. For example, nearly 200 000 comments on the draft Law on Labour Contracts were received, many from ordinary workers.⁴² The comments were analysed and discussed at forums. The government posts much of this material on the internet for public access, including

⁴¹ WTO 2006, *Trade Policy Review: China*, p 38.

⁴² Wu Bangguo 2007, *Report on the Work of the Standing Committee of the National People’s Congress*, Delivered at the Fifth Session of the Tenth National People’s Congress, 11 March.

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almost all national laws and regulations and sometimes draft bills.

Quantitative techniques are widely employed in policy analysis in China. Economywide models and analysis is becoming popular and researchers knowledgeable in these techniques are widely engaged in policy analysis by different levels of government. However, such analysis is not always available to the public. An assessment of the transparency of China's trade policy processes against the criteria developed in chapter 2 are summarised in table 8.

While policy processes in China are becoming more transparent, they remain deficient in many areas. Nevertheless, the Chinese government has a strong record of reform over recent decades. These reforms include the unilateral liberalisation of much of its trade, starting with the 1978 reforms and the changes to laws, trade policies and domestic regulation associated with WTO accession. These reforms have contributed to exceptionally strong growth in trade and investment, which has underpinned the extraordinarily rapid expansion in the Chinese economy that has raised incomes and significantly reduced poverty. Yet China maintains significant barriers to trade that are not in the national interest. For example, the average MFN applied tariff rate was 9.9 per cent in 2006, the highest of all the countries reviewed in this chapter.⁴³ And tariffs on agricultural goods are even higher. While the tangible benefits delivered by previous reforms increase the political feasibility of further reform, the agricultural sector remains politically sensitive. More transparent policy processes will help to increase the political feasibility of reform in this area.

⁴³ WTO, ITC and UNCTAD 2007, *World Tariff Profiles 2006*, http://www.wto.org/english/res_e/booksp_e/tariff_profiles06_e.pdf, Accessed 26 November 2007.

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8 China – assessment of trade policy transparency

<i>Transparency criteria</i>	<i>Comments</i>
Transparency	<ul style="list-style-type: none"> ▪ Transparency and public discussion growing. ▪ Restrictive media and access to many specific or sensitive policy initiatives limited.
Coherent policies in the national interest	<ul style="list-style-type: none"> ▪ China undertook a broad range of domestic reforms as part of the WTO accession process. ▪ China nevertheless maintains significant barriers to trade, including barriers to internal trade.
Economywide cost benefit analysis	<ul style="list-style-type: none"> ▪ Economywide models increasingly used for policy analysis.
Credible believable findings	<ul style="list-style-type: none"> ▪ There is increasing use of public consultation in policy development.
Independent, contestable review	<ul style="list-style-type: none"> ▪ Little evidence of independence from the executive branch of government.
Systematic review of all areas over time	<ul style="list-style-type: none"> ▪ Broad reforms covering most areas being embraced with greater success in some areas than others.
Findings a formal input into government policy	<ul style="list-style-type: none"> ▪ Reviews find their way into government but without a formal input process or obligation for the government to respond.
<i>Source: TheCIE.</i>	

Japan

The objective of Japan's trade policy is to ensure long-term prosperity and growth by promoting business activities in Japan and at the international level.⁴⁴ This stated objective has a protectionist tone and Japan maintains high tariffs on agricultural products. Indeed, the average MFN tariff on agricultural products imported into Japan was 24.3 per cent

⁴⁴ WTO 2007, *Trade Policy Review: Japan*, p 14.

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in 2006, the highest of all the countries reviewed in this chapter.⁴⁵

Responsibility for trade-related issues in Japan is spread across a number of ministries, principally the Ministry of Foreign Affairs and Trade and the Ministry of Economy, Trade and Industry. Ministries and agencies with responsibility for sectoral issues also have an input into trade policy.⁴⁶

In recent years, Japan has made efforts to improve transparency of trade policy and domestic policy and regulation more broadly. These efforts included the establishment of the Council for the Promotion of Regulatory Reform (CPRR) in 2004. The policy evaluation process is set out in the *Government Policy Evaluations Act* and the *Basic Guidelines for Implementing Policy Evaluation*. The Act requires the Cabinet Office and Ministries to evaluate their own policies before and after implementation and to publish the results. The Administrative Evaluation Bureau of the Ministry of Internal Affairs and Communications (MIC) also undertakes an independent assessment of the policies implemented by ministries. The Commission on Policy Evaluation and Evaluation of Incorporated Administrative Agencies, consisting of independent experts, also studies and deliberates on matters concerning policy evaluations.⁴⁷ An assessment of the transparency of this policy evaluation process is summarised in table 9.

The policy evaluation systems implemented in Japan over recent years have improved policy transparency. A key strength of the Japanese system is that evaluations are required by law, ensuring they are systematically under

⁴⁵ WTO, ITC and UNCTAD 2007.

⁴⁶ WTO 2007, *Trade Policy Review: Japan*, p 15.

⁴⁷ WTO 2007, *Trade Policy Review: Japan*, p 17.

4 WHO DOES IT BEST IN DOMESTIC CAPITALS?

9 Japan – assessment of trade policy transparency

<i>Transparency criteria</i>	<i>Comments</i>
Transparency	<ul style="list-style-type: none"> Public reports but not all elements of transparency processes are fully developed.
Coherent policies in the national interest	<ul style="list-style-type: none"> The Administrative Evaluation Bureau of the MIC carries out evaluations to ensure coherence of government policies.
Economywide cost benefit analysis	<ul style="list-style-type: none"> Policies are evaluated against the government's objectives, rather than an economywide assessment of the costs and benefits.
Credible, believable findings	<ul style="list-style-type: none"> Each Administrative Organ is required to establish a contact point to receive opinions and requests regarding policy evaluations. This public consultation enhances the credibility and believability of the findings.
Independent, contestable review	<ul style="list-style-type: none"> As Ministries self-evaluate their own policies, the reviews cannot be considered independent. Policies are also reviewed by the Administrative Evaluation Bureau of the MIC, but the Bureau is also not formally independent of government. However, input from the independent Commission on Policy Evaluation acts as a check on the quality of the review. Reports are published and publicised through appropriate means, such as press releases or posted on internet websites. Results are therefore contestable.
Systematic review of all areas over time	<ul style="list-style-type: none"> The Government Policy Evaluations Act requires ex-post as well as ex-ante policy evaluations. This ensures that policies are reviewed systematically.
Findings a formal input into government policy	<ul style="list-style-type: none"> Reports are formally considered as part of the policy process.

Source: TheCIE.

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taken. Furthermore, the Government Policy Evaluations Act requires ex-post evaluations of important policies in addition to ex-ante assessments. This requirement should ensure that all policies are reviewed, including those already in place prior to the commencement of the Act. The Act also requires that the findings of policy evaluations are appropriately utilised in the planning and development of policies. Reports are made public, except where the information is of a sensitive nature such as matters relating to national security, public safety, personal privacy or corporate secrets. This ensures the results are contestable. Public consultation is also included in the policy evaluation process, which improves the credibility and believability of the findings. The use of public consultation as an educative tool would be enhanced by the release of an issues paper prior to public consultation.

While the transparency of policy processes has improved in Japan, it is not without significant flaws. A key weakness is that policies are evaluated against the Government's objectives, rather than an economywide assessment of the costs and benefits. Specifically, the Guidelines require that 'utmost efforts shall be made to determine the effects and impacts of the policy in question on the overall objectives of government activities, taking into consideration the special characteristics of the policy concern'.⁴⁸ But, the government's objectives may not always be in the national interest. Indeed it is the role of policy evaluation to inform the government and the public if this is the case. For example, the *Basic Plan for Food, Agriculture and Rural Areas* sets a target level of self-sufficiency in food production. This objective is pursued through a range of trade-distorting policies, such as tariffs, tariff rate quotas and payments

⁴⁸ Ministry of Internal Affairs and Communication 2005, *Basic Guidelines for Implementing Policy Evaluation*, http://www.soumu.go.jp/hyouka/seisaku_n/pes/basic_guidelines.pdf, Accessed 26 November 2007.

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based on output. Assessed against the government's objective of maintaining a high level of food self-sufficiency, a review of Japan's trade policies would find that tariffs and other trade-distorting policies are appropriate. The review could easily ignore the costs associated with maintaining a high level of self-sufficiency in food production, including the costs borne by consumers through higher food prices. By contrast, a thorough economywide analysis would show that tariffs on agricultural goods are not in the national interest: the costs of pursuing a target level of food self-sufficiency outweigh any benefits.

A further weakness is that policies are evaluated by the Ministries responsible for them. It is difficult to see how the evaluation could be considered objective and independent. While the Administrative Evaluation Bureau of the MIC is supposed to act independently, it is not clear that the MIC is any more independent from the executive branch of government than the Ministry responsible for the review. The Commission on Policy Evaluation and Evaluation of Independent Administrative Institutions acts as a check on the independence and quality of policy evaluations. However, it would improve independence, and therefore the credibility and believability of the results, if the policy evaluations were undertaken by bodies granted formal independence. Such bodies could include a government research organisation with statutory independence or private consultants. Another alternative would be to ensure that the Ministries' evaluations are overseen by an independent review group, containing representatives of the key stakeholders affected by the policy.

Canada

While the average MFN tariff rate on all imports into Canada was 5.5 per cent in 2006, average tariff rates on

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agricultural goods were much higher, at 17.3 per cent.⁴⁹ This was the second highest agricultural tariff of the countries or regions reviewed in this chapter. The Cabinet, and more specifically the Minister for International Trade, is responsible for the conduct of trade policy in Canada. International treaties, however, may require implementing legislation. At the bureaucratic level, Foreign Affairs and International Trade Canada (DFAIT) is responsible for trade policy, in co-ordination with other relevant government departments and agencies. Transparency is largely provided through the Environmental Assessment process and to a lesser extent, the Canadian International Trade Tribunal (CITT) and Parliamentary committees — the House of Commons Committee on International Trade, in particular. The transparency of Canada's trade policy is summarised in table 10.

An Environmental Assessment is undertaken of all trade negotiations. The first stage of an environmental analysis involves identifying the economic effects of the Agreement to be negotiated.⁵⁰ This means that an economic analysis is undertaken of all trade negotiations.

An Environmental Assessment Committee, consisting of representatives from DFAIT, Environment Canada, the Canadian Environmental Assessment Agency and other relevant Federal departments, is formed to conduct each environmental assessment. While information on the potential economic changes of the agreement can be drawn from academic institutions and private sector organisations, in practice the economic modelling is largely undertaken by the Trade and Economic Analysis Division within DFAIT.

⁴⁹ WTO, ITC and UNCTAD 2007, *World Tariff Profiles 2006*, http://www.wto.org/english/res_e/booksp_e/tariff_profiles06_e.pdf, Accessed 26 November 2007.

⁵⁰ DFAIT 2006, *Handbook for Conducting Environmental Assessments of Trade Negotiations*, p 51.

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10 Canada – assessment of trade policy transparency

<i>Column heading</i>	<i>Column heading</i>
Transparency	<ul style="list-style-type: none"> ▪ Transparent processes involving significant consultation with the public.
Coherent policies in the national interest	<ul style="list-style-type: none"> ▪ Economywide analysis undertaken as input into an assessment of the environmental impacts. Therefore no clear national interest test.
Economywide cost benefit analysis	<ul style="list-style-type: none"> ▪ Economywide analysis undertaken using CGE framework.
Credible believable findings	<ul style="list-style-type: none"> ▪ Significant public consultation as part of the EA process.
Independent, contestable review	<ul style="list-style-type: none"> ▪ The EA Committees and the Trade and Economic Analysis Division are not independent of government. However, the methodology used in economic analysis is clearly stated so the results are contestable. ▪ The CITT has statutory independence from the executive branch of government, but is referred few trade and tariff inquiries and these tend to be narrowly focussed.
Systematic review of all areas over time	<ul style="list-style-type: none"> ▪ An Environmental Assessment (EA) (which involves modelling the economic impacts) is only undertaken for proposed changes to trade policy. ▪ The economic, trade and tariff inquiries referred to the CITT have been relatively few and narrowly focussed.
Findings a formal input into government policy	<ul style="list-style-type: none"> ▪ EAs are a formal input into the trade negotiation process.

Source: TheCIE.

Neither the Environmental Assessment Committee or the Trade and Economic Analysis Division could be considered to be independent of the government. Some may therefore consider the findings less credible and believable. Nevertheless, the methodology used in the modelling is clearly stated and is therefore contestable. Conducting the

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analysis within the bureaucracy also ensures that it is a formal input into government decision-making, although the findings of an environmental assessment are not binding.

The environmental assessment process involves the release of an initial report and a draft report before the final Environmental Assessment Report is completed. Each stage involves significant consultation with the Federal-Provincial-Territorial Commerce and Trade Committee, the Environmental Assessment Advisory Group, independent experts and the public. This consultation enhances the credibility and believability of the analysis.

While the environmental assessment process ensures that there is an economywide analysis of the impacts of each trade negotiation, it does not ensure the coherence of trade policies. Environmental Assessments aim to assist Canadian negotiators to integrate environmental considerations into the negotiating process, and to address public concerns by documenting how environmental factors are being considered in the course of trade negotiations.⁵¹ The economic analysis is therefore merely an input into an assessment of the environmental impacts, rather than an explicit assessment of the economywide costs and benefits. This focus on the environmental impacts means there is no clear national interest test. Environmental impacts should not be overlooked in an assessment of the economywide costs and benefits of trade policy, but they should also not be the sole focus. Furthermore, as argued previously, it is better to address environmental issues with well-targeted environmental policies, rather than through trade policy.

Economywide analysis of trade policy in Canada is linked to the environmental assessment process. Environmental

⁵¹ DFAIT 2006, *Handbook for Conducting Environmental Assessments of Trade Negotiations*, p 1.

4 WHO DOES IT BEST IN DOMESTIC CAPITALS?

Assessments are required for all trade negotiations. This means that formal economic analysis is only undertaken for proposed *changes* to trade policy. While DFAIT publishes a range of reports and working papers analysing trade issues, there is no systematic analysis of the costs and benefits of Canada's *existing* trade policies. The environmental assessment process is therefore unlikely to contribute to a unilateral liberalisation of trade policy.

The Canadian International Trade Tribunal (CITT) is an independent statutory body established in 1988. It performs many of the same functions as the USITC in the United States. The CITT has the authority to conduct inquiries into matters such as dumping, complaints by potential suppliers concerning procurement by the federal government, and import safeguards. As discussed previously, these functions are protectionist in nature and the analysis tends to be one-sided, assessing only the costs to domestic producers. Upon request from the Minister of Finance or the Governor-in-Council, the CITT can also conduct inquiries and make recommendations on matters relating to the economic, trade or commercial interests of Canada. However, this function appears to be limited. In recent years, the CITT has been referred relatively few economic, trade and tariff inquiries and the inquiries it has undertaken have been narrowly focussed. The CITT therefore plays little role in improving the transparency of Canada's trade policy. As the CITT has statutory independence from the government, expanding the CITT's role in conducting inquiries could improve the transparency of Canada's trade policy.

Indonesia

Indonesia has one of the more open trade regimes in the East Asia region, largely owing to a series of major trade reforms from the mid 1980s. These reforms are estimated to have reduced the weighted average rate of effective pro-

tection for manufacturing (excluding oil and gas processing) from 59 per cent in 1987 to 16 per cent in 1995.⁵² However, tariffs remain relatively high. In 2006, the simple average MFN tariff rate was 6.9 per cent, behind only China of the countries reviewed in this chapter.⁵³ However, Indonesia was one of the few countries reviewed in this chapter that did not have a significant discrepancy between the tariffs applied to agricultural and non-agricultural products.

The political environment in Indonesia prior to the economic and political crises of the late 1990s made unilateral trade reform possible without transparent policy processes. During this period, once the powerful authoritarian President was convinced of the need for reform, it was implemented with little public debate. However, the economic and political crises have changed Indonesia's political environment significantly: the authority of the President has been weakened; Cabinet unity is weaker; the parliament has become more powerful, and less predictable; power is less centralised; and civil society has become more active and influential in the decision-making process. These changes have important implications for trade policy. Bird, Hill and Cuthbertson argue that in the current environment, policy processes will have to be more transparent to build public and political support for trade policy reform.⁵⁴ An assessment of the transparency of Indonesia's trade policy processes is provided in table 11.

⁵² Bird, K., Hill, H. and Cuthbertson, S. 2007, *Making Trade Policy in a New Democracy after a Deep Crisis*, Working Papers in Trade and Development No. 2007/01, Division of Economics, Research School of Pacific and Asian Studies, Australian National University, p 7.

⁵³ WTO, ITC and UNCTAD 2007, *World Tariff Profiles 2006*, http://www.wto.org/english/res_e/booksp_e/tariff_profiles06_e.pdf, Accessed 26 November 2007.

⁵⁴ For further details, see Bird, K., Hill, H. and Cuthbertson, S. 2007, pp 7-11.

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11 Indonesia – assessment of trade policy transparency

<i>Transparency Criteria</i>	<i>Comments</i>
Transparency	<ul style="list-style-type: none"> ▪ Transparency of trade policy not well developed.
Coherent policies in the national interest	<ul style="list-style-type: none"> ▪ Approach to trade policy is inconsistent across ministries. Tariff barriers have fallen, while non-tariff barriers have increased.
Economywide cost benefit analysis	<ul style="list-style-type: none"> ▪ No standard analytical tools used. ▪ No clearly articulated public benefit test.
Credible believable findings	<ul style="list-style-type: none"> ▪ Impact assessments of policy proposals are not routinely produced for public information. ▪ Limited public consultation.
Independent, contestable review	<ul style="list-style-type: none"> ▪ Tariff harmonisation program was undertaken by an inter-agency team. It was therefore not independent of the government. ▪ No independent agency to analyse costs and benefits of policy proposals.
Systematic review of all areas over time	<ul style="list-style-type: none"> ▪ All tariffs were considered as part of the tariff harmonisation program.
Findings a formal input into government policy	<ul style="list-style-type: none"> ▪ Analysis undertaken within government, so therefore an input into government decisions.

Source: TheCIE.

Trade and other economic policies ultimately remain the responsibility of the President and the Cabinet. At the bureaucratic level, the Ministry of Trade has primary responsibility for coordinating trade policy and international trading relations, though a number of agencies have significant input. The Indonesian National Trade Negotiation Team was established in 2005 to: improve Indonesian participation in international fora; evaluate the impact of international trade issues on the national economy; prepare and formulate strategies and positions

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for trade negotiations; and communicate the results of negotiations to Indonesian stakeholders. The team is chaired by the Coordinating Minister for the Economy, while the Minister of Trade is the deputy chair.⁵⁵

In 2004, the Minister of Trade announced a comprehensive review of trade policy, aimed at removing protectionist measures by rationalising and lowering tariffs and gradually removing bans and quotas. The first stage of the review involved a tariff harmonisation program. Criteria for setting tariffs were established by Team Tariff, an inter-agency body under the Ministry of Finance, responsible for reviewing tariff and non-tariff measures. However, the approach taken by Team Tariff was largely informal, without a clearly defined national interest test or sound analytical research.⁵⁶

Furthermore, Team Tariff did not have responsibility for non-tariff barriers to trade. In general, line ministries are responsible for non-tariff barriers, such as import bans and licensing schemes. While the Ministry of Finance and the Ministry of Trade tend to be pro-liberalisation, line ministries tend to be more protectionist. Consequently, while tariff barriers to trade have tended to decline, many non-tariff barriers to trade have increased. Indonesia's overall trade policy therefore lacks coherence.⁵⁷

Encouragingly, the Ministry of Trade is currently improving its Regulatory Impact Analysis process. Regulatory Impact Analysis involves rigorous analysis of the costs and benefits of regulation and public consultation.⁵⁸ This process has

⁵⁵ WTO 2007, *Trade Policy Review: Indonesia*, p 20.

⁵⁶ Bird, K., Hill, H. and Cuthbertson, S. 2007, p 13.

⁵⁷ Bird, K., Hill, H. and Cuthbertson, S. 2007, pp 15-16.

⁵⁸ Erwidodo Andin Hadiyanto 2007, 'Regulatory Impact Analysis (RIA)' in *The Ministry of Trade – Indonesia*, presentation given at Workshop on Accelerating Economic Regulatory Reform: Indonesia and International Experience, Jakarta,

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been used to reject a proposed export tax on cocoa beans that was not found to be in the public interest.⁵⁹

In Indonesia's new policy environment, high quality, yet accessible analysis and public consultation will become increasingly important as a means of building political support for reform.

Who does it best?

Australia, the United States, the European Union, Japan and Canada all have established transparent processes for developing trade policy. The standout example of good practice is Australia, but even there, transparency could be improved if the Productivity Commission were allowed to initiate its own reviews into industry assistance or if the Government were required to seek the Commission's advice before providing any new assistance to industry.

In each country (regional grouping for the EU), economy-wide costs and benefits are analysed, the results are publicly available and therefore contestable and there is extensive public consultation. But the analysis is variable and in the EU's case, watered down with 'triple bottom line criteria'. While economic, social and environmental costs and benefits are all important, it is better to directly address social and environmental issues with well-targeted policies, rather than through trade policy.

China's and Indonesia's policy processes are less transparent than those of other countries studied. But many of the elements of good transparency are in place and there is a definite trend in the case of China towards better transparency of trade policy. Public consultation enhances the

April 10-11, <http://info.worldbank.org/etools/docs/library/239820/RegulatoryReformWorkshop11April2007.pdf>

⁵⁹ Bird, K., Hill, H. and Cuthbertson, S. 2007, pp 19-20.

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credibility of the analysis by ensuring that all costs and benefits are considered. It can also play an educative role and help to build public and therefore political support for reform. The Productivity Commission in Australia often releases an issues paper prior to the public consultation process. More important is the release of its draft report for public scrutiny and feedback before the report and its recommendations are finalised.⁶⁰ This can enhance the educative role of public consultation.

Independent analysis enhances the credibility and believability of the findings. It is therefore preferable that the analysis is completed outside the direct influence of the executive branch of government. Public research organisations have been established in Australia and the United States, with statutory independence from the government. A key advantage of Australia's Productivity Commission is that it can deal with any economic policy issue, while the USITC focuses specifically on trade issues. However, it is not essential that the analysis be undertaken within the public sector. Indeed, the trade SIAs for the EC are completed by private consultants. The key point is that the analysis is independent of the executive branch of government and vested interests.

A common weakness across all of the countries reviewed in this paper except Australia is that the review of trade policy is rarely systematic. Reviews tend to be undertaken of policy changes proposed by the government. There is rarely a systematic review of the costs and benefits of maintaining existing trade policies. While the USITC periodically quantifies the economic effect of some import restraints, not all

⁶⁰ The Productivity Commission's consultation processes are described in more detail in Banks, G. 2007, *Public inquiries in policy formulation: Australia's Productivity Commission*, Address to International Workshop: Australia's Public Inquiry Experience and Economic System Reform in China, China-Australia Governance Program, Beijing, 3 September.

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are included and behind-the-border trade-distorting policies are not systematically reviewed in an economywide context. Despite highlighting the significant costs associated with retaining its remaining trade barriers, the USITC's analysis does not appear to have contributed to their dismantling. This could be because, other than on trade remedies, the USITC does not have the power to make explicit recommendations that assistance be reduced. This omission makes it easier for the government to ignore politically inconvenient findings.

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The trade policies pursued by governments are regularly scrutinised by international organisations such as the World Bank, the OECD and the WTO through regular reporting mechanisms. Other bodies such as the IMF also produce transparent, quality analysis of trade policy. But the IMF's focus is on the global financial system and is omitted from this select review. In broad terms, the objective of these international organisations in providing this scrutiny is to improve the transparency of government policy and encourage reform. In this regard, the objectives are identical to the domestic transparency process proposed in this report and therefore the analysis provided by these organisations can be assessed against the transparency framework developed earlier. In particular, we focus on:

- the OECD's Producer Support Estimates for the agricultural sector and other research;
- the World Bank; and
- the WTO's Trade Policy Review Mechanism.

At the outset there is one big difference between the transparent reviews of trade policy in domestic capitals and those made by international agencies. The work of international agencies is not 'owned' by the domestic electorate. 'Someone else' has done the review and it can be ignored or dismissed by domestic politicians if it suits them.

International transparency

The OECD

Regular research produced by the OECD adds scrutiny to trade policy. The OECD publishes *Agricultural Policies in OECD Countries* every second year.⁶¹ The OECD also publishes *Agricultural Policies in Non-OECD Countries*, which covers selected non-OECD countries, including China. Agricultural policy and trade policy are intrinsically linked because tariffs tend to be highest on agricultural products and because many countries also engage in other types of trade-distorting policies, such as market price support and input subsidies.

The Producer Support Estimate (PSE) and derived indicators are the principal tools used to monitor and evaluate agricultural policy developments. The PSE is defined as the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, arising from policy measures that support agriculture, regardless of their nature, objectives or impact on farm production or incomes. It includes market price support, budgetary payments and budget revenue foregone.⁶²

The OECD is a credible, independent source of information. The indicators are useful for monitoring progress (or lack thereof) in withdrawing support for agricultural producers and cross-country comparisons. The report is publicly available and the methodology is clearly stated.

However, the OECD's PSE are an accounting exercise. They do not measure the economywide costs and benefits of agricultural policies. They do not, therefore, show who

⁶¹ Every other year the publication is a shortened version, *Agricultural Policies in OECD Countries: At a Glance*.

⁶² OECD 2007, *Agricultural Policies in OECD Countries*, OECD Publishing, p 64.

bears the burden of agricultural protection and what is in the national interest. Consequently, they do not make full use of the potential to change the political economy of reform. So, while the OECD has a strong reputation for professional, independent, credible analysis, and while the PSE's are most informative, they are not a measure of the economic cost of agricultural protection. They do not analyse what is in each country's national interest.

The OECD does from time to time produce various publications that contain an analysis of the economywide costs and benefits of trade protection. A recent example is *Trading Up: Economic Perspectives on Development Issues in the Multilateral Trading System*.⁶³ This report analyses the costs and benefits of various trade liberalisation scenarios from a global and regional perspective. The benefits of trade liberalisation in a multi-lateral context are well understood by governments. Evidence is provided by the widespread membership of the WTO. However, there is an equally widespread but mistaken perception that the benefits to each country stem from improved access to international markets. To the contrary, most of the benefits flowing to each country are derived from removing their *own* tariff barriers. Reports that focus on regional or global benefits do little to convince each country that it is in their own interest to unilaterally remove barriers to trade.

⁶³ OECD, 2006, *Trading Up: Economic Perspectives on Development Issues in the Multilateral Trading System*, OECD Publishing.

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12 OECD

<i>Transparency Criteria</i>	<i>Comments</i>
Transparency	<ul style="list-style-type: none"> ▪ Adds scrutiny to domestic policies.
Coherent policies in the national interest	<ul style="list-style-type: none"> ▪ OECD research often has a regional focus, rather than a focus on the benefits for each country of removing its own trade barriers.
Economywide cost benefit analysis	<ul style="list-style-type: none"> ▪ The regular evaluation of agricultural policies does not include an analysis of the costs and benefits of the policies. ▪ The OECD periodically undertakes economywide analysis of the costs and benefits of trade policies in a CGE framework.
Credible believable findings	<ul style="list-style-type: none"> ▪ The OECD has a strong reputation for high quality analysis. ▪ There is little public consultation.
Independent, contestable review	<ul style="list-style-type: none"> ▪ The OECD provides independent analysis. ▪ Methodology is clearly stated. Results are publicly available.
Systematic review of all areas over time	<ul style="list-style-type: none"> ▪ Regular monitoring and evaluation focuses on agricultural policy, ignoring other deleterious trade policies. ▪ Economywide analysis is not completed systematically.
Findings a formal input into government policy	<ul style="list-style-type: none"> ▪ There is no formal requirement that governments consider OECD findings.
<i>Source: OECD, CIE.</i>	

Furthermore, OECD analysis is removed from domestic decision-making processes and is therefore less likely to encourage reform than analysis completed as part of each country's domestic policy processes.

The World Bank

According to the World Bank, its work on international trade is an integral part of its work on development and poverty reduction. The Bank's trade program has two central objectives:

- at the global level, the World Bank advocates changes in the world trading system to make it more supportive of development; and
- at the country level, the Bank supports developing countries in their efforts to improve their own policies, institutions and infrastructure through providing strategic assistance.⁶⁴

The World Bank publishes a range of books, working papers, trade notes, a quarterly journal *Trade and Development Quarterly*, a trade newsletter and diagnostic trade integration studies.

The World Bank is an independent international organisation. It attracts top economists from all over the world and therefore has a reputation for quality research and analysis on development and related issues. Much of the Bank's research has a broad, economywide focus. For example, a recent publication, *Reforming Agricultural Trade for Developing Countries*, reported on a variety of studies that quantified the benefits of removing barriers to trade in developing countries.⁶⁵ The policy messages for developing countries are clear.

⁶⁴ World Bank, *Trade Overview*, World Bank Website, <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:20097808~pagePK:148956~piPK:216618~theSitePK:239071,00.html>, Accessed 13 December 2007.

⁶⁵ McCalla, A.F. and Nash, J. (editors) 2007, *Reforming Agricultural Trade for Developing Countries, Volume Two: Quantifying the Impacts of Multilateral Trade Reform*, World Bank, Washington DC.

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13 World Bank

<i>Transparency Criteria</i>	<i>Comments</i>
Transparency	<ul style="list-style-type: none"> World Bank analysis adds scrutiny to domestic policies.
Coherent policies in the national interest	<ul style="list-style-type: none"> The World Bank's policy prescriptions are put in a coherent framework.
Economywide cost benefit analysis	<ul style="list-style-type: none"> In various publications the World Bank quantifies the economywide impacts of trade reform at the global or regional level. In particular, reforming agricultural trade for developing countries.
Credible believable findings	<ul style="list-style-type: none"> Often consultation with governments. No consultation with the public.
Independent, contestable review	<ul style="list-style-type: none"> World Bank is independent of each government and has a strong reputation for high quality research. Data and methodology are clearly stated.
Systematic review of all areas over time	<ul style="list-style-type: none"> Diagnostic trade integration studies for least developed economies evaluate the external constraints on a country's integration into the world economy. The World Bank's development focus does not add scrutiny to policies in developed countries.
Findings a formal input into government policy	<ul style="list-style-type: none"> There is no formal requirement for country governments to consider the World Bank's recommendations. Country governments typically have input into diagnostic trade integration studies.
<i>Source: World Bank, TheCIE.</i>	

However, the World Bank research, like that of other international organisations, is removed from domestic decision-making processes. There is no requirement for governments to consider the findings, let alone explain why they are not removing trade barriers, despite the demonstrated benefits. Analysis from outside the country lacks the ownership and impetus to reform, compared with domestically produced research.

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Furthermore, for reform to be feasible, the policies must have broad public and political support. This type of analysis does little to build domestic public support within countries. As with the OECD, the focus on multilateral reform and the benefits to the global economy or large aggregates of countries does not convincingly show that each individual country would benefit from unilaterally removing its own barriers to trade.

However, the Bank also produces country-specific research and provides trade-related technical assistance to the least developed countries. Diagnostic trade integration studies evaluate the internal and external constraints on a country's integration into the world economy.⁶⁶ These studies produce coherent strategies for the least developed economies to integrate into the world economy. The terms of reference for these reviews are often developed under the guidance of the country's government and therefore give a degree of domestic ownership over the policy recommendations.

This type of country-specific research and assistance is more likely to stimulate reform than does global or regional research. However, these studies are only completed for the least developed countries, in line with the World Bank's focus on poverty reduction. Many of these countries tend to have a litany of fundamental behind-the-border issues to address, which are likely to be less controversial than removing tariffs and other protection for the agricultural sector. Trade reform therefore tends to be less of a priority. Furthermore, no economywide analysis is done as part of these studies, so they are less likely to build political support for controversial reform.

⁶⁶ World Bank, *Country Trade Diagnostic Studies*, World Bank Website, <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,contentMDK:20615178~menuPK:1574524~pagePK:148956~piPK:216618~theSitePK:239071,00.html>, Accessed 13 December 2007.

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The WTO's Trade Policy Review Mechanism

The Trade Policy Review Mechanism (TPRM) was provisionally established in 1988, as part of the mid-term review of the Uruguay Round. The TPRM became one of the WTO's basic functions in 1994.⁶⁷ An assessment of the TPRM in the framework developed earlier is summarised in table 14.

A TPRM review typically follows a standard format, including:

- a discussion of recent economic developments and the outlook;
- a summary of the member's trade policy regime, including trade policy objectives, the institutional framework and an overview of trade laws and regulations; and
- a summary of trade policies and practices by measure and by sector.

The TPRM therefore enhances transparency only in the static sense of providing information and promoting understanding of each member's trade policies. There is no attempt to quantify the costs and benefits of barriers to trade. Trade policy reviews therefore do not assess what is in the national interest. Nor do they educate the government and the public, or expose vested interests. As Carmichael points out:

...the TPRM has done nothing to ease the negative pressures governments face at home, from protected domestic producers seeking to avoid the adjustment liberalisation involves for them.⁶⁸

⁶⁷ WTO, *Overseeing national trade policies: the TPRM*, WTO Website, http://www.wto.org/english/tratop_e/tp_r_e/tp_int_e.htm, Accessed 12 December 2007.

⁶⁸ Carmichael, B. 2005, *Trade Policy at the Cross-Roads*, Pacific Economic Papers No. 351, Australia-Japan Research Centre, Asia Pacific School of Economics and Government, The Australian National University, Canberra, p 7.

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It is difficult to see how a process that is explicitly ‘not intended to impose new policy commitments on members’ can contribute to better policy.

Each WTO member is reviewed on a systematic basis: the four members with the highest share of world trade are reviewed every two years; the next 16 largest traders are reviewed every four years; and other members are reviewed every six years. Reviews are conducted by the Trade Policy Review Body (TPRB), which is effectively the WTO’s General Council. The TPRB considers a policy statement prepared by the department of trade in the member under review and a report prepared by the WTO Secretariat. Resources to conduct the review come from the members so the Secretariat has to be ‘mindful’ of the criticisms they might make. Also, officials from the department of trade in the country under review have a central role in the TPRM process. This department is usually the same one that devises the trade policy and then administers it, and therefore has an incentive to defend its own policies. The reviews may not, therefore, be perceived as being fully independent. This lack of independence means that the findings of the reviews are not going to be believed.

Finally, as with all external transparency, TPRM reviews are not plugged into domestic decision-making processes. Indeed, while the WTO publishes the findings of the TPRM, some members have actively suppressed the publication of the policy review in their own country. As Carmichael asserts:

The TPRM has failed because it is seen as an external surveillance process conducted by trade officials, and as a reporting requirement that has no relevance for domestic decision-making.⁶⁹

⁶⁹ Carmichael, B. 2005, *Trade Policy at the Cross-Roads*, Pacific Economic Papers No. 351, Australia-Japan Research Centre, Asia Pacific School of Economics & Government, The Australian National University, Canberra, p 31.

14 Trade Policy Review Mechanism

<i>Transparency Criteria</i>	<i>Comments</i>
Transparency	<ul style="list-style-type: none"> ▪ The WTO publishes trade policy reviews, but some members suppress the reports.
Coherent policies in the national interest	<ul style="list-style-type: none"> ▪ A consistent approach is taken to reviews but there is no national interest test.
Economywide cost benefit analysis	<ul style="list-style-type: none"> ▪ No attempt is made to evaluate the economy-wide costs and benefits associated with the trade policies reviewed under the TPRM.
Credible believable findings	<ul style="list-style-type: none"> ▪ Credible source of information.
Independent, contestable review	<ul style="list-style-type: none"> ▪ While the WTO Secretariat produces an independent report, there is also significant input from the Department administering the policies under review. The Review may not therefore be perceived as fully independent. ▪ There is no analysis in the reviews to challenge.
Systematic review of all areas over time	<ul style="list-style-type: none"> ▪ A comprehensive review of all trade policies, but behind-the-border barriers largely ignored. ▪ All WTO members are reviewed over a cycle.
Findings a formal input into government policy	<ul style="list-style-type: none"> ▪ The TPRM is not intended to impose new policy commitments on members.

Source: WTO, TheCIE.

Key points

Policy review processes undertaken by international agencies are less effective in driving reform than those of domestic organisations, most critically, because they are done by ‘outsiders’. This means there is no domestic ownership of the analysis and therefore no direct political pressure on governments to formally consider the findings

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in framing domestic policy. It is all too easy for governments to ignore politically inconvenient findings by outsiders.

Also, international reviews tend to focus on the global or regional benefits from multilateral trade reform. This does little to change the domestic politics of reform within each country. Instead, it is independent analysis showing that it is in each country's *own* interests to unilaterally remove its barriers to trade that increases the political feasibility of reform.

In addition, international reviews frequently compare one country against another. But this comparison is irrelevant, and can deflect attention from the main issue at hand: will a country become better off by unilaterally reducing its barriers to trade? That is the choice each country has, not how much it can influence the behaviour of others.

Despite this inherent weakness of international transparency, the analysis produced by international organisations can be a useful input into government decision-making, as well as providing additional scrutiny on policies. The World Bank and the OECD both produce independent, credible, economywide analysis that is read widely by policymakers around the world. The PSEs published by the OECD provide useful information on the level of protection of agriculture, but it is not economywide economic analysis. Producer support estimates do not show what is in the national interest. They also fail to show who bears the final burden of protection from imports and therefore do not encourage coalitions to form to remedy bad policies. Also, while governments are sometimes involved in the work done by the World Bank and the OECD, there is little input from other stakeholders within countries.

The WTO's Trade Policy Review Mechanism is the poorest of all transparency exercises of trade policy. Trade policy

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reviews contain no economic analysis at all — let alone economywide analysis. Since the effect on national interest from each country's trade policy is not evaluated, there is no indication of what policy changes would be in the national interest.

Also, trade policy reviews may not be perceived as being fully independent. While an independent report is produced by the WTO Secretariat, there is also substantial input from the various departments of trade around the world who have the incentive to defend their own policies. Trade policy reviews conducted under the auspices of the WTO therefore have had no material effect on the quality of trade policies.

6 WHAT DOES IT ALL MEAN?

Policy transparency is a process by which better policy outcomes emerge. Transparency has several elements, the cornerstones of which are credible, believable analysis and coherent policies in the national interest. Most countries subject their trade policy to some sort of transparency but mostly it is not done well. The best example of trade policy transparency is in Australia through its Productivity Commission. But even in Australia, transparency of policy could be improved. In particular, reinstating the ability of the Commission to initiate its own inquiries on industry assistance issues or reintroducing the requirement that the government seek the Commission's advice before providing any new assistance to industry would strengthen the role of the organisation.

The evolution of Australia's Industries Assistance Commission into the now Productivity Commission highlights how the effectiveness of a transparency body can depend on its charter and to whom it reports. At times, attempts to restrain the Industries Assistance Commission and the Industry Commission reduced the organisation's effectiveness.⁷⁰ These included arrangements under which the Commission reported to the department that had designed

⁷⁰ A potted history of the erosion of transparency elements for the Industries Assistance Commission is contained in Stoeckel, A. and Cuthbertson, S. 1987, *The Game Plan, Successful Strategies for Australian Trade*, an independent report commissioned by the National Farmers' Federation, Canberra.

and administered industry protection policies, and the sending of trivial references on subjects such as ‘cherries in brine’ and ‘razor blades’. Nowadays, the Commission looks at bigger picture issues such as competition policy, regulation and social and environmental policy. The point is that transparency can and does change within a country as reforms progress, so it is not surprising that there are large differences in transparency across countries.

There are several lessons from the differences across countries and the international agencies that review trade policy. The first is that most countries have some degree of trade policy transparency. So moving to best practice transparency would scarcely involve starting from scratch. There are some obvious improvements that can be made to improve domestic transparency in some countries. For example, as Carmichael notes, in the United States the obvious action required to improve transparency is ‘simply to add to the existing charter of the USITC a guideline requiring it to bring the economy-wide consequences into account when formulating advice about protecting domestic industries’.⁷¹

Transparency has been shown to work. It is no coincidence that where transparency works well, as in Australia, there is a low level of trade protection and the decision to liberalise trade was made unilaterally because the electorate and policymakers understood that it was in the country’s national interest to do so. Measuring the national interest through good public processes so the community has some ownership, or at least acceptance, of the findings improves understanding among the electorate about the benefits and costs of change. That understanding would ‘increase the

⁷¹ Carmichael, B. 2005, *Trade Policy at Cross-Roads*, Pacific Economic Papers No. 351, Australian-Japan Research Centre, Asia Pacific School of Economics and Government, Australian National University, Canberra, p 33.

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power of Governments to serve the national interest, not lessen it'.⁷²

Indeed, better transparency of trade policy is seen as the solution to the stalled Doha round of trade talks. The Tasman Transparency Group⁷³ has proposed a transparency initiative within the WTO to improve the chances of successfully reducing barriers to trade around the world that would go well past the timeframe of the Doha Round. Their logic is simple. The reason why there is no deal in the trade talks so far is that there is nothing to take from the negotiating table. And there is nothing to take from the table because nothing has been put on the table. The reason no substantive offers have been put on the table is that countries do not believe it is in their unilateral interests to remove their own barriers to trade. They wrongly believe that their trade performance is constrained by the actions of others, not themselves. They do not see that it is in their own national interest to remove their own barriers to trade because they do not measure what is in their own interests through good domestic transparency processes. Hence, introduce well-functioning domestic processes of transparency around the world and the problem of costly, inefficient trade barriers will be well on the way to being solved.

The idea proposed by the Tasman Transparency Group is for a 'Transparency Commission' within the WTO.⁷⁴ Whether this new body or a reform of the TPRM is better

⁷² Banks, G. 1984, 'Vested interests, domestic transparency and international trade policy', *Intereconomics*, May-June.

⁷³ <http://www.tasmantransparencygroup.com.au>.

⁷⁴ Tasman Transparency Group 2006, *An Initiative to Strengthen the WTO*, July. <http://www.tasmantransparencygroup.com.au>.

is a moot point, since the TPRM was seen previously to have major deficiencies in conducting good transparency.⁷⁵

How better domestic transparency could be conducted under the auspices of the WTO is not as critical as ensuring the key elements of transparency outlined in chapter 2 are adopted by governments around the world. This study has identified the key features required for transparency to work well. Each country needs a domestic process of systematic, repeated, publicly accepted economywide appraisal of trade policies. That will mean independent bodies conducting appraisals of trade policy using principles of good public governance.

If such domestic transparency processes were adopted in each country, the long term outcome would be lower barriers to trade and therefore higher national welfare.

⁷⁵ Specifically, the TPRM does no assessment of the impact on national interest of changing the policies it reports on. Its processes are not fully independent of the departments of trade that devise and implement trade policy and the process amounts to outside scrutiny of policy: it is not embedded within an independent *domestic* transparency process.

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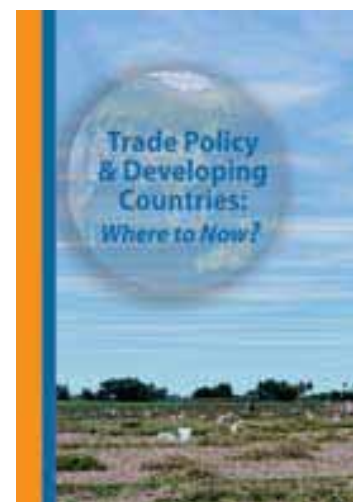
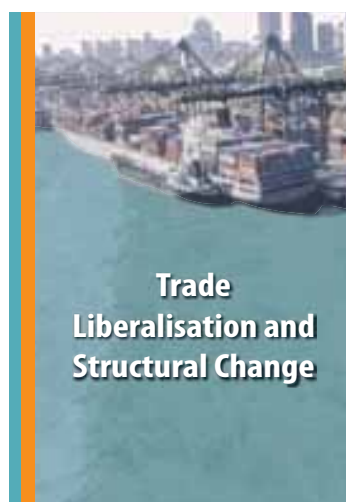
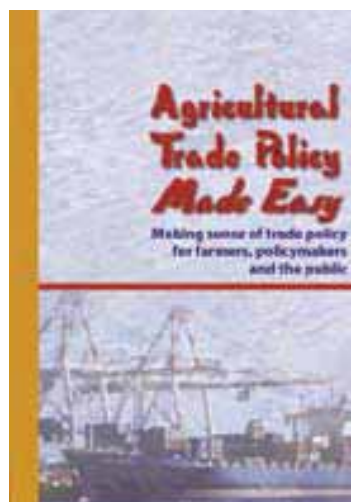
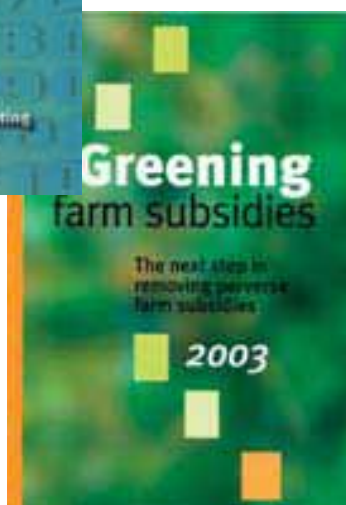
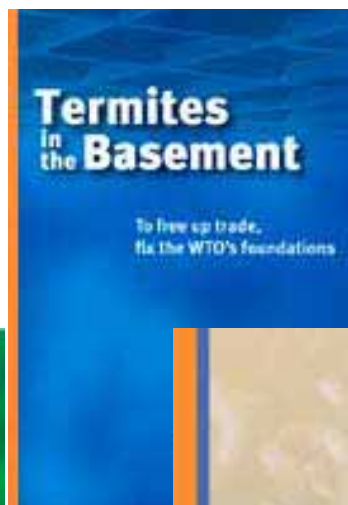
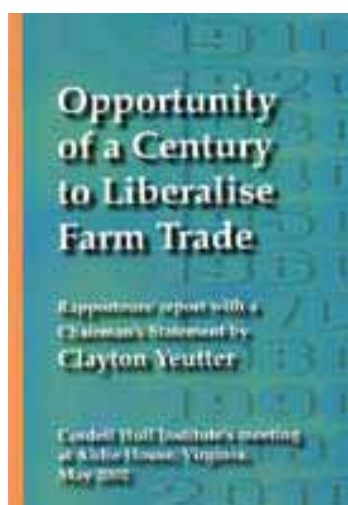
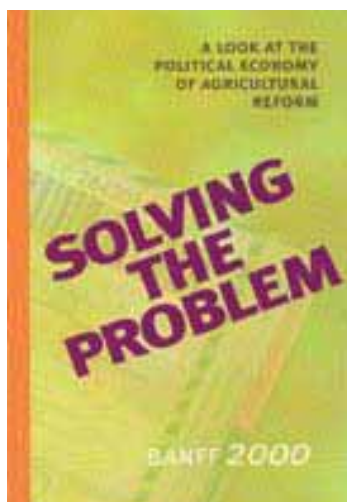
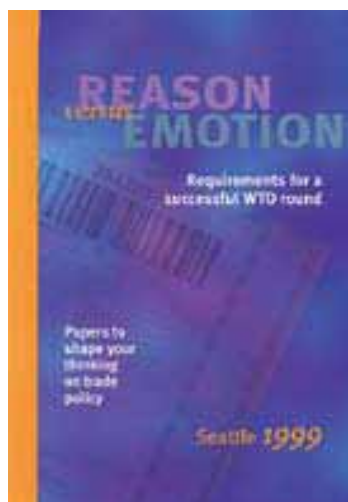
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Policy Transparency

Why does it work?

Who does it best?

RIRDC Pub. No. 08/035

The difficulty of removing barriers to trade has its roots in the lack of public awareness of the benefits from freeing-up trade. Good policy transparency involves open public scrutiny of the economy-wide national benefits and costs of changing trade policies.

Transparency has several inter-related elements and for the best results each has to work well. Transparency identifies the national interest, it informs and educates the government and the public, it exposes narrowly vested interests – weakening their influence, and it helps build coalitions for reform. It also leads to a more predictable policy environment and reduces uncertainty faced by investors.

Simply put, decisions cannot be made in the national interest if people do not know what is in the national interest. Transparency does that.

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