

Comment on the Draft Research Report of the Productivity Commission on Bilateral and Regional Trade Agreements

The strength in the position of the Productivity Commission is its track record of addressing public policy issues from a theoretically robust position as a basis for policies that it sees as in the national interest. This Draft Report the Commission risks taking another path. The weighing up the cost and benefits impacting on firms and other stakeholders is fraught with difficulties and subject to political expediency. The report would be better served by stressing the general equilibrium implications of BRTAs and more fully recognizing the transactions costs of their negotiation and potential for unintended consequences of their implementation.

As there has already been a deal of academic feedback on the Draft Report I will restrict myself to several brief observations:

- The Draft Report covers much ground in some detail. It recognises that multiple BRTAs might be costly and inefficient yet prevaricates when faced with the judgement that they might not be 'worth the candle'. It would be best to let the effort and costs fall on the WTO and regional trade groupings to which Australia contributes.
- The opportunities for rent seeking offered by the process of BRTAs should be more carefully considered. On-going consultation with oligopolistic stakeholders within Australia seems less of a basis for trade reform than an invitation to ameliorate the dissipation of their rents.
- There is discussion of capacity building assistance to partners to enhance their ability to negotiate and implement agreements (13.30). The desirability of internal reforms within countries is also highlighted in areas such as structural reform and competition policy. Such discussion serves to highlight how complex the challenge of economic development is for low income countries and the Commission at times recognises that BRTAs might play a relatively small or subsidiary role in such development, at best. It all gets very complicated very quickly and each country has specific challenges. Therefore rather than offer assistance for enhanced negotiating capacity we should continue to support more general economic development through international agencies. Attempting to harness BRTAs for this task seems ill advised. This is especially true of the small and micro states of our region.
- The negotiation and implementation of BRTAs appears to offer added layers of complexity to our international relations that should be avoided.
- In regard to the complexity of negotiating with multiple individual states the political, social and institutional constraints that regional governments face need to be more clearly recognised and enumerated. Such road blocks to policy will not necessarily be cleared by developing the 'analytical capacity of the country' (13.30). Hesitancy in agreement and negotiation might be considered in this light. The academic literature of international business studies offers insights in this regard in areas such as culture and social structure as constraints on FDI. Unwillingness that our negotiators observe at times might be better understood by attention to these issues in a systematic

manner. Such institutional and political differences between countries underpin the heightened costs of negotiating and implementing BRTAs. Regional bodies may make a better fist of it; but even then progress is unlikely to be rapid. Policies that directly promote macroeconomic and financial stability should be preferred.

- Rules of origin seem to me a perfect example of unnecessary complexity and increased transactions costs.
- Arguments are canvassed (13.2) in regard to more flexibility and comprehensiveness of BRTAs. However, BRTAs are already dissecting the beast in many parts! One wonders how far differentiation might be taken. Is it an infinite 'regress' of slicing to micro level for each region, country, and sector? What are the limits to the transactions costs that are entailed in such a strategy? The Draft Report favourably cites the services only agreement with the EU (13.8) negotiated due to the sensitivity of agriculture. Pragmatic yes; however, in a wider sense such approaches gives permission to or acknowledges the legitimacy of sensitivities such as agriculture. (Of course other sensitive issues require more careful consideration and respect e.g. issues of indigenous rights or claims to land.)
- It is doubtful governments should get involved with investor protection at all (13.19). Such agreements invite moral hazard with significant costs to taxpayers. In a market economy firms should be left to pursue regress in the courts and if this option is not attractive then re-assess investment decisions in the light of such risk.
- I encourage the Commission to advance the case of simplicity grounded in solid theory in assessing the desirability of BRTAs and attend less to political imperatives.