
by

Evan Jones

No. 212 December 1994

DEPARTMENT OF ECONOMICS

The University of Sydney Australia 2006

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Abstract

Trade Policy has since 1987 been driven by the 'multilateralist' thrust, centred on the Australian Government's active position taken at the Uruguay Round of GATT negotiations. The bureaucratic politics which lead to this emphasis are of major importance to economists, not least because the returns from the multilateralist initiative, seemingly bounteous following the December 1993 accord, appear more questionable with the passage of time. This paper examines the culture of the Department of Trade, and its diminishing influence within Canberra's policy hierarchy until its abolition in 1997. Of particular importance are various components of a dissident bilateralist thrust. The arguments of the bilateralist position and the forces which lead to its emasculation will be addressed.

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<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Introduction: the Conflict over Trade Policy and the Rise of Multilateralism</td>
<td>1</td>
</tr>
<tr>
<td>II. The Evolution of a 'Nationalist' Trade Policy in the 1970s and 1980s</td>
<td>5</td>
</tr>
<tr>
<td>IV. Recent Developments: Trade Policy Triumphant or at an Impasse?</td>
<td>18</td>
</tr>
<tr>
<td>References</td>
<td>24</td>
</tr>
<tr>
<td>Addendum</td>
<td>26</td>
</tr>
</tbody>
</table>
Abstract: Trade policy has since 1987 been driven by the 'multilateralist' thrust, centred on the Australian Government's active position taken at the Uruguay Round of GATT negotiations. The bureaucratic politics which lead to this emphasis are of major importance to economists, not least because the returns from the multilateralist initiative, seemingly bounteous following the December 1993 accord, appear more questionable with the passage of time. This paper examines the culture of the Department of Trade, and its diminishing influence within Canberra's policy hierarchy until its abolition in 1987. Of particular importance are various components of a dissident bilateralist thrust. The arguments of the bilateralist position and the forces which lead to its emasculation will be addressed.
Bureaucratic Politics and Economic Policy:  
The Evolution of Trade Policy in the 1970s and 1980s

Evan Jones

"The Spirit of System, a fertile source of error, fertile in most sciences, is peculiarly so in political economy. It is a foe to solid knowledge ... The spirit of system consists in a tendency to reduce all phenomena to a few general rules, and to find a greater degree of order, symmetry, and simplicity in the natural, moral, or political world than really exists. ... It finds ready acceptance with all men; for it flatters both the pride and the indolence of human nature. It is much easier to comprehend and apply a few general rules, than to understand the complicated structure and regulations of human society. Any man may make a parade of knowledge by dogmatizing about imaginary general principles, but to master facts, details, and the results of experience, is a long-toilsome, and humbling occupation." (A Barrister, Sophisms of Free Trade, 1849:7)

"So far from freedom of trade being a condition of prosperity, the reverse is actually the case. As a consequence nations will engage in free and open trade only to the extent that they perceive it will pay them to do so. In short, most governments follow Disraeli's dictum that liberalism should be regarded as an expedient not a principle." (Shutt, The Myth of Free Trade, 1985:6)

I. Introduction: The Conflict over Trade Policy and the Rise of Multilateralism

Australian trade policy has been subsumed within a broad 'free trade' agenda, in the ascendant since 1985. The formal attachment to this agenda has displayed a quality akin to religious fervour, unqualified by the details of experience. The agenda has even been constructed with a surprising detachment from the details of the current account, the bottom line of which has been in continuous (and escalating) deficit since

1. This is a revised version of a paper delivered to the 20th Conference of Economists, Economics Society of Australia and New Zealand, Hobart, September 30 1991
the mid-1970s. It is instructive to enquire how trade policy was constructed. This entails an investigation of both the institutional means and the broader culture which channelled the viable options. In particular, this investigation requires an elaboration of developments within the Department of Trade, and the conflicts which occurred within that Department (and its previous manifestations) in the 1970s and 1980s. Economists typically eschew an interest in the processes by which economic policy is made; but they do so at their peril. An understanding of the origins of trade policy is inconceivable without some exposure to such internal processes.

Since 1987 (decisively characterised by the moment of the abolition of the Department of Trade), trade policy has been centred on multilateralism. More particularly, trade policy was centred on the single-minded pursuit of a global institutional environment more conducive to Australia’s trade prospects through the Uruguay round of GATT (the General Agreement on Tariffs and Trade), which began in September 1986, and later through the APEC forum in Asia (Asia-Pacific Economic Cooperation).

To this end, the Labor Government intended (and achieved) a more visible role in multilateralist negotiations than was customary by its membership of and influential role in the Cairns Group, created in 1986. The primary ambition was to resurrect the fortunes of its flagging rural sector. It has become conventional wisdom that Australia’s trade prospects are hampered by trade barriers and subsidies erected by the governments of other rural producers (especially within the European Community). The best hope for trade expansion, then, was to work towards the eradication of such barriers and subsidies via the presumed power and legitimacy imparted by the GATT structure.

The multilateralist thrust was accompanied by a policy of the gradual abolition of the domestic regime of protective tariffs. This policy, begun under Whitlam and deferred under Fraser, went into high gear under Labor after 1983 (with exceptions made for several industries subject to sectoral plans). Yet it seems inappropriate to place this tariff agenda primarily within the bailiwick of trade policy per se, though clearly there are indirect implications for trade outcomes. Tariff policy has been an integral component of domestic ‘microeconomic reform’, formally addressed to the efficiency of domestic resource allocation.

It is possible to interpret the dominant attitude prevailing in the early 1990s as having brought tariff reduction into the arena of explicit trade policy. In this latter guise, tariff reduction is viewed as a means of displaying Australia’s bona fides for a principled stance within the corridors of GATT. Viewed in this way, tariff reduction goes under the label of unilateralism. Yet the unilateralist thrust appears in the first instance to be incompatible with the multilateralist thrust. They can only be given the blessing of consistency if the procedures of GATT are interpreted by Australian policymakers through an idealist lens. All the supplementary information available from official pronouncements would indicate that this is an accurate interpretation of the dominant Australian vision.

Australian policy-makers have presumed the apparatus of multilateralism to be a vehicle for purist proponents of free trade (cf. Teese, 1994). In turn, free trade is presumed to be both mutually beneficial to all parties and for all seasons. In the process, inadequate account appears to have been taken of the politics of GATT: the imbalance of power of the participants; the character of the post-1950 movements to freer trade; and the context in which such successes were achieved.

There are two central ingredients in the history of GATT, both neglected in conventional interpretations.2

First, gains from trade are contingent. The successes in trade liberalisation and expansion were facilitated by the special conditions prevailing for two and a half decades after 1945. Those conditions (Pax Americana) centred on US economic dominance (the dollar as reserve currency; the export of aid, private capital, goods and expertise); cold war politics (military spending and repression of industrial dissidence); and widespread strategic direction of national economies by their governments. Freer trade was as much a product of post-war growth (generating relative stability and security) as it was its source. One cannot generate free trade and further economic growth at will, without more profound sympathetic conditions which will guarantee the necessary widespread and continuing support of governments for multilateral cooperation.

Second, the gains from trade are uneven. GATT is an organisation established and run by and for the interests of the most powerful industrialised countries. The uneven nature of benefits is highlighted by the continuing distress of LDCs through the post-1945 ‘boom’ and their failure to achieve significant attention to their priorities in

2. Limitations of space do not permit the extensive treatment of this neglected and misunderstood arena. An extensive treatment can be found in Shutt (1985) and Tussie (1987).
successive rounds of GATT (leading to the establishment in 1964 of the United Nations Conference on Trade and Development as a vehicle for their cause).

That GATT has been primarily a ‘rich country’ club is reflected in the sectoral imbalance of GATT deliberations. In general, US political hegemony allowed its representatives to constrain formally multilateral trade negotiations by its particularistic domestic and global political concerns.

Post-1945 trade was concentrated amongst countries with similar resource endowments, namely the advanced countries. Liberalisation was not coupled with greater national specialisation in the production and export of individual industries of the Ricardian wine-cloth variety. Tariff cuts realised the potential for a higher level of reciprocal *intra-industry* trade in equipment and manufactures. Industrial firms and countries carved market shares by differentials of *qualities* of the products sold, and not by differentials of price.

These changes were embodied in particular in the Kennedy Round and the Tokyo Round. These extended negotiations generated the largest tariff reductions in industries typified by advanced technology, product innovation and large international firms operating in oligopolistic markets.

By contrast, agriculture and textiles/clothing/footwear, both of fundamental relevance to LDC export specialisation, were removed from consideration under GATT negotiations. Agriculture was removed in the 1950s because it conflicted with US support of its domestic farm sector and of the European Common Agricultural Policy (as an anti-communist bulwark). Textiles was removed gradually and quarantined within a quota system under the rubric of the Multi Fibre Agreement.

The *realpolitik* character of GATT’s operations does not sit neatly with textbook conventional wisdom nor with official optimism regarding the ready capacity of the institution to serve Australia’s interests. Agriculture was finally admitted to the GATT agenda in the Uruguay Round, but this owed much to US shifting interests - facing a mounting current account deficit, an escalating food subsidy war with Europe, and priorities in codifying trade rules in services and intellectual property.

The idealised Australian conception of multilateralism fitted naturally into the dominant domestic agenda for economic policy under the rubric of microeconomic reform. The evangelical character of both trade policy in the small and microeconomic reform in the large has made the process resistant to feedback, modification or abandonment.

II. The Evolution of a ‘Nationalist’ Trade Policy in the 1970s and 1980s

How there was developed an uncritical commitment to the multilateralist thrust is a complex question. Trade policy during the post-war boom exhibited a strategic assertiveness and a ‘realpolitik’ awareness of global trade politics. The successful conclusion of a Trade Treaty with Japan in 1957 symbolised this thrust (cf Drysdale, 1986). Strategic action was also manifest in an assertive program directed towards enhancing exports, both through extensive bilateral negotiations and within the multilateralist confines of GATT. This international orientation is poorly understood and even more inadequately researched. The period is typically and misleadingly characterised as one dominated by a culture of ‘inward-looking manufacturing protection and agricultural subsidies. It is against this (erroneous) interpretation of the post-war that the dominant policy agenda of the late 1980s has been constructed. Yet this domestic protection was only one element within a broader set of trade and industry policies. Moreover, the culture most directly responsible for the generation of such policies was co-existent with another sub-culture. This second sub-culture was embodied in forces oriented towards global integration under a super-power umbrella, with the difference that Britain was now increasingly playing second fiddle to the USA.

Post-war economic/industrial/trade policy is thus directed not by a hegemonic vision but indirectly via a prevailing tension over the balance of priorities. The ‘two-line conflict’ was essentially between what has come to be called a ‘level playing field’ vision and a ‘nationalist’ vision. Both visions were being reconstructed under the pressure of changing conditions. The tension is reflected most notably in perennial bureaucratic rivalry which persisted through a process of departmental re-organisation - the axes, however, remained centred on Treasury (now reinforced by a growing Prime Ministers and Cabinet) and on Trade/Resources (cf Juddery, 1974).

The tension is also encapsulated within the mining sector, which was to be a focus of policy conflict. This sector had always been global in outlook but its increasing scale and degree of foreign ownership made its claims more pressing; and these were for

3. Transcript of interviews with Lindsay Duthie (sometime Deputy Secretary, Department of Trade), 7 December 1992; and William Carew (sometime press Secretary to John McEwen), 8 December 1992.
policies that ensured openness of the economy. On the other hand, the sector was the scene for the more aggressive use of export controls as a vehicle for 'national interest' interventions in the mining sector's imperatives. The tension within the sector was thus incorporated within the 1970s trade and resources ministries. In general, it appears that the nationalist vision was in the ascendant in the 1970s and early 1980s, only to be upended by the resurgence of the 'global integration' vision in the mid-1980s.

Three ingredients of a nationalist agenda appeared in the Trade/Resources Departments in the 1970s and 1980s. The most assertive ingredient was the conscientious use of the federal constitutional power of export controls to influence export prices and quantities. The most systematic ingredient was the development of a comprehensive bilateralist strategy for trade enhancement. The most eccentric ingredient was the incorporation of a 'business union consultation unit' in the Department of Trade to expand the constituency involved in the making of industry and trade policies.

1. Export Controls

The export control power was revived by the Labor Government in February 1973. It was applied within a separate Department of Minerals and Energy under the formidable duo of Rex Connor as Minister and Lennox Hewitt as Department Head. The coal industry was a fertile arena for its employment. Given the strong nationalist leanings of these gentlemen, several reigning features of the coal industry provided a key impetus to the assertive use of export controls. First, Australian-based producers consistently settled for prices less than that achieved elsewhere, particularly in the USA. Second, the industry was markedly uneven in character; in particular, the open-cut 'miner' Utah was marginal pricing and undercutting underground miners (what was good for Utah was not necessarily good for Australia). Third, Japanese negotiations were centralised through the figure of Saburo Tanabe, chief executive of Nippon Steel. In what passes in Australia for an impersonal market mechanism, Mr Tanabe had been for some years dictating the terms of trade to Australian-based coal companies.

The Connor/Hewitt team made an unprecedented intervention into the Japanese negotiations after April 1974, making major breakthroughs in prices in July 1975. Some companies were antagonistic to the process from the start, partly because of the greater complexity of the process, but also because of a seemingly innate ideological antagonism to government involvement in the process.5

Nevertheless, the procedures were maintained, even refined, with the accession of a coalition government in 1975. At the same time, the Department of Overseas Trade was giving increasing attention to the minerals sector beyond its 1960s preoccupation with agriculture. As a consequence, the Fraser Government created a super-department of Trade and Resources in 1977. This provided a more effective bureaucratic structure combining both sectoral and market expertise, blended with the policy instruments to add clout to the exporting drive.

2. Constructing a Comprehensive Bilateralist Strategy

A nationalist perspective can also be found in renewed initiatives towards a bilateralist strategy. This was especially embodied in the work of the Economic and Policy Division of the Department of Trade and Resources. The Division was established in 1979 and carried over in 1983 into the new Department of Trade. The impetus was the existence of an adverse trade balance which continued to languish through the 1970s, and whose character was little understood. Within the Economic and Policy Division there was established an Economic Research Branch. It was that Branch's ambition to undertake a comprehensive empirical examination of Australia's recent trade experience as an intelligent resource for more soundly-based policy deliberations.

In principle, this procedure would have been preferably performed from a more detached Research organisation, a Bureau of Trade Economics/Research, similar to Bureaux operating at arm's length relationship with other Departments. This option was not to be, as it was apparently politically unpalatable to the bureaucratic establishment, reflected in an antagonistic decision by the then Public Service Board.

The balance of payments continued at unsatisfactory levels. Yet no substantial information existed which would clarify the nature of the problem as a means to its redress. The Department of Trade and Resources initiated institutional structures to redress the information inadequacies, but was met with lack of broader support.

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4. The relevant ministries were labelled, respectively, the Departments of Minerals and Energy, and of Overseas Trade (1972-75); National Resources, and of Overseas Trade (1975-77); Trade and Resources (1977-1983).

5. After the successful Connor/Hewitt negotiations of July 1975, a misinformation campaign was put in place from within the coal industry to create the contrary impression that government involvement had 'sold out' the industry by settling for less than the companies could achieve (Tooke, 1976).
The situation was pragmatically resolved by the establishment of a surrogate bureau of trade economics - an Economic Research section, housed within the 1979 Research and Policy Division. There followed a series of Internal Research Memoranda (IRM) and Internal Information Papers (IIPs) which examined the details of Australia's shifting economic balance with the rest of the world. These documents deserved broader exposure, but their bureaucratic status ensured restricted circulation.

Of particular relevance is the Internal Research Memorandum No.4, "Australian Export Performance in the 1970s" (1982). This document highlighted that Australia’s trade performance during the 1970s had been lacklustre. Export growth had merely kept up with GDP growth, so there had been no growth stimulus from the export sector. In addition, export growth had facilitated only a marginal increase in import purchasing power in 1980 over that which had existed in 1970. The sources of this poor outcome were demonstrated to be hydra-headed.

Australia’s structure of trade was out of kilter with the fastest-growing sectors of world trade (manufactures, machinery and services). Even given its structure of trade (Australia’s’ comparative advantage), the rate of growth of exports had been slower than the world average growth. A spatial analysis also highlighted that Australia had suffered a decline in import penetration of major advanced countries. The bulk of Australian exports were unprocessed or semi-processed at a time when the fastest growing segments of world trade were in elaborately transformed goods. 6

One factor cited in IRM#4 as a contributor to poor export performance was the widespread existence of ‘export franchise’ restrictions in the mandate of domestic subsidiaries of multinational companies. Accordingly, a rare study was initiated on the extent, character and impact of such restrictions in Australian industry (Department of Trade, Trade Development Council, 1983). Various recommendations were made to reduce the impact of export franchises on Australia’s export capacity, especially in the manufacturing sector.

Another dimension of this research thrust was a comprehensive evaluation and analysis of the conditions faced by mineral exporters. This project was labelled the ‘economics of mineral supply’ (Department of Trade and Resources, 1982b). Its brief was to question the prevailing axioms on which contemporary research had been based, much of which was generated by global forecasting models of internationally reputable energy consultants. The environment was one of supply shortages, behind which lay long-term declining prices and profitability. There was a tendency to accept the global market (price side) as given, and to look to the domestic market (cost side) for explanations and solutions - to place the blame purely on domestic conditions. The research indicated that key consumers (of steel making inputs for example) had created a bargaining advantage for themselves which needed to and could be redressed. It was inferred that producers needed a more assertive trade strategy to gain both higher and more stable prices; long-term contracts were seen as a viable means towards this end. Behind that thrust, there was a need to ensure greater collaboration between the producing countries, most of whom were outside the ‘first world’ nexus. The project intended to demonstrate that Australia could exercise more discretion over its materials supply, and an integral component of this management capacity would be a continued dependence on the export controls power.

This broad research agenda served as a basis for a more strategic approach to enhancing exports. The impetus was maintained initially through a change of Governments in 1983 and a change of Departmental Secretaries. The Labor Party itself came to office without a trade policy of its own, but there were policy fragments (including the still-born Overseas Trading Corporation) which were slotted into the 'nationalist' agenda.

Thus a corporate strategy was devised (with support from the new Trade Minister, Lionel Bowen) and published in March 1984 (Department of Trade, 1984a; 1984b). In the light of the later reorientation of trade policy towards a dependence upon multilateralism, several elements deserve quotation:

"Multilateralism has in the main benefited large economies with major manufacturing capabilities. Only limited gains have been achieved through multilateralism in those areas of world trade where Australia's comparative advantage is greatest, such as agriculture."

The document claims that persistence with multilateralist negotiations is necessary in the hope of freeing up of trade, especially of agriculture. Nevertheless,

"Our interests are served by involvement in this form of activity, provided the
objective of increased market share and real price gains is not obscured. ... Bilateralism, as practiced by Australia, has been mainly the negotiation of trade agreements and bilateral discussions of trade issues and problems. Given that major trading nations have been vigorously practising bilateralism, while paying lip-service to multilateralism over the past three decades, it is clear that Australia must also pursue an effective policy of bilateralism.”

Effective bilateralism requires a well-rounded trade diplomacy. This involves the full gamut of ‘weapons’ and attention to mundane elements of detail - the right industrial base, efficient information channels, country-specific knowledge and skills, negotiating skills, continuity of personnel, and the will and the means to effective coordination of the elements. As natural as this approach seems, Australian trade diplomacy was judged as being immature (cf Barratt, 1989:1).

As a consequence of the corporate plan and of these acknowledged existing weaknesses, a generic model was developed. It sought a realistic assessment of the role of government in the Australian context given a limited quantum of resources. It was concluded that ambitions should be channelled where the requirement is the greatest and where they will make the greatest impact.


Thus the bilaterialist initiative was embodied in principle in the 1984 Corporate Strategy of the Department of Trade, and embodied in practice in more assertive and strategically-driven trade relations with China and Japan.

China and Japan were chosen as the immediate fields for application of this model. China had made important overtures within months of Labor coming to office in March 1983. China was engaged in a large-scale modernisation program with major infrastructural demands which fitted neatly with Australia’s industrial strengths. Moreover, the Chinese Government showed a marked political preference for dealing with Australia rather than with the super-powers. Thus was born the China Action Plan.

Japan was just being relieved of the burden of high oil prices. Australian access to the massive Japanese market for manufactures and services was small, and the chances for exponential growth in these areas existed, given the right management. There was also the need to manage more astutely the marketing to Japan of Australia’s more traditional exports. Several missions to Japan pursued detailed intelligence gathering and apprenticeships in diplomacy (Department of Trade, Trade Development Council, 1983; 1984). Thus was born the Japan Market Strategy.

In the case of China, there was a considered concentration on particular provinces and on particular areas of Australian skills which were in demand in China. In the case of Japan, there was an assertive, comprehensive and integrated attack on the discovery of market opportunities and the development of institutional support mechanisms to ensure a safer passage of Australian products through the marketing chain to the consumer. In both cases, these procedures were combined with the pedestrian but important elements of ensuring a consistent and patient presence and pressure through prolonged negotiation periods. If the process is done right, it can be done cheaply, as bureaucratic resources involved can be relatively small. In addition, one can build structures of the industrial/commercial chain and of communications which entrench a long-term advantage of a self-sustaining character to Australian industry.

Early success in China was rapid. The initial goal was to double exports in 3-5 years; yet exports almost tripled within three years, even in the face of declining wheat sales and of exchange controls (Barratt, 1993). Yet 1985-86 remains the ‘high-water mark’ of Australian exports to China.

Regarding Japan (on figures readily available), DFAT estimates indicate that the annual rate of 8% growth of ETMs and STMs exports to Japan between 1985 and 1990 was 30% and 24%, respectively; the comparable relative growth of all manufactured exports for the period being 17% and 19% (Bureau of Industry Economics, 1991:16).

The elements of successful bilateralism were conceived in the Department’s research branches, and tried in the fire of experience in China and Japan. An exemplary articulation of such elements is to be found discussed in Paul Barratt’s Management of Australia’s Economic Relationships with North East Asia (1989). This document was produced following the author’s experience in the working of the Japan and China strategies, but the lessons are more generally applicable.

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7. This paper is an exemplar for bureaucratic writing. It is the product of substantial detailed experience of the subject; it is sober, yet forthright when necessary; it is open about failures and weaknesses of past practices, as a vehicle for their future improvement. The tenor is to be contrasted with the typical bureaucratic document embodied in Departmental annual reports. These are masterpieces of obfuscation, a process which the age of managerialism has enhanced rather than reduced.
One must think *strategically*. This involves looking ahead (and looking back), and pre-empting change rather than reacting passively to change. Thus a key ingredient of Trade’s approach to Japan in the 1980s was a strategic approach to the implications of changing energy costs in the 1970s and 1980s.

One must have adequate market *intelligence*. This has to include the ‘big’ picture - the underlying environment - which would allow reasonable predictions of important changes. Thus in the case of beef and the Japanese market, the interest of the Japanese in direct investment in the Australian beef industry was an indicator that pressures on the Japanese beef market for liberalisation were to show results.

One’s strategy and its institutional support must be relatively *assertive*. Towards this end, policy-makers and negotiators must have a self-conscious awareness that the foreign movers and shakers in international trade negotiations have a sense of a national interest *per se*; that it is reasonable to have and pursue a national interest; that the negotiating countries will also be pursuing a national interest which includes elements contrary to one’s own; and that it is necessary and reasonable to pursue one’s own national interest against contrary positions. This interest must be pursued with a firmness but within the bounds of propriety dictated ultimately by the necessity to maintain long-term relations. In sum, policy-makers and negotiators must possess a will and a capacity to pursue a consciously constructed national interest.

A key ingredient of an assertive pursuit of the national interest is that the policies and implementation aim towards *coherence* and *coordination*. This entails that separate arms of governments do not conflict with or undermine each other. Bureaucratic rivalry is rife within Australia. For example, it entails that trade initiatives are not undermined by foreign affairs imperatives. It also entails that Ministers involved in negotiations represent their country rather than their Department.

A pursuit of the national interest involves an intelligent and comprehensive assessment of *available bargaining chips*. There has been a persistent belief in the circles of conventional wisdom that Australia has no bargaining power and has to take trade on whatever terms it can get. This is defeatist and regressive. A major bargaining chip exists in the fact that many countries (including Asian countries) resent the superpowers and would prefer dealing with less belligerent traders. This was an important ingredient in China’s initiatives to the Australian Government in the early 1980s.

One’s aims must be pursued unwaveringly, with *resilience* and with *patience*. This involves a clear distinction between first aims and fall-back positions. It may also involve a string of layered positions, forcing longer-term ambitions through shorter-term strategies. Thus access to the tightly controlled Japanese beef market was improved by negotiating on the margin for something immediately winnable - an increase in the number of customs inspectors in the Japanese clearing points.

These enumerated procedures did not gain the long-term support in Canberra that they deserved. On the contrary; they were systematically opposed. Both the ideas and their application was gradually undermined in subsequent bureaucratic transformations.

4. The Business Union Consultation Unit

An additional component of the ‘nationalist’ thrust was added with the creation in April 1984 of the Business Union Consultation Unit (BUCU). This Unit was pragmatically constructed and combined several functions. It was an educational and propaganda unit - compiling, translating and summarising Australia’s industry and trade policies in accessible form (cf Department of Trade, Business Union Consultation Unit, 1984, 1985; n.d.). These documents were aimed predominantly at the labour movement, and reached a wider audience than most bureaucratic output.

The Unit was also a beachhead for the small minority of the organised labour movement genuinely concerned with industry and trade policies, located in the Department of Trade as much for its sympathetic cover as for its functional coherence. BUCU was re-constituted as the Secretariat to the Trade Development Council in early 1985. The BUCU/Secretariat took two dozen missions to three dozen countries in pursuit of ‘best practice’ technologies and labour relations, partly financed by the relevant industry participants. It also engineered in 1985/86 a major education campaign through the Trade Union Training Authority, in conjunction with the Australian Manufacturing Council.8

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8: There was some thought within the ACTU to press for a merger of the Australian Manufacturing Council and the Trade Development Council, as a more forceful institution for fighting the Industries Assistance Commission. Personality differences within the TDC Secretariat and the AMC ensured that the idea was still-born.
The Secretariat’s finest hour was the mission to Sweden and other European social democratic countries in 1986. Out of this mission emanated the substantial document, *Australia Reconstructed* (Department of Trade, ACTU/TDC Secretariat, 1987), the labour movement’s most significant alternative blueprint for industrial reconstruction. BUCU/Secretariat missions also contributed to the re-designing of the ACTU/Government Accord towards an emphasis on training initiatives, and to the establishment of Workplace Resource Centres in major industrial cities.

By the election of July 1987, the TDC Secretariat had not merely transcended the Department of Trade; it had run into the full headwind of the ‘level playing field’ gale. It is necessary to re-trace the steps which led to the gradual abolition of the Department of Trade.


1. The Gradual Attrition of Trade

The Department of Trade and Resources (1977-1983) possessed the organisational structure to be both a powerful and an effective department. It was a mega-department (before such institutions became fashionable) whose brief was the export trade right across sectors - agriculture, mining, manufactures and services. In addition, it was not a pure ‘overseas’ department, which was important in political terms. It was overseen by a minister who could be persuaded to take positions beyond those of his Country Party constituency. The Department combined sectoral and trade expertise, including the possession of the negotiating instruments (export controls). This structure was to be gradually whittled away between 1983 and 1987.

The abolition of the Department of Trade in 1987 deserves to be seen as a major event in the history of federal bureaucratic politics, as it was once a mighty department and the major source of policy opposition to the Federal Treasury. This abolition has to be seen as all the more remarkable, given that the trade picture was exceedingly bleak when Labor came to office and that the bilateralist thrust was starting to pay dividends.

Increasingly influential in 1983 was the opinion (though from outside the Trade and Resources) that sectoral interests were best protected within sectoral departments. ‘Resources’ was separated from Trade and moved into Resources and Energy. In the resources arena, sectoral expertise was thus separated from trade expertise and the

instruments.

At the same time, export controls came under increasing attack. Administratively, coal negotiations were of increasing complexity, with greater fragmentation in the industry, greater gradations of coal qualities and changing Japanese demand patterns linked to technological change. Politically, export controls grated with the mining companies, some of whom made their irritation known to other ministers. The Prime Minister’s Office was a key conduit for such pressures on the Department of Trade. An influential figure in this process was the economic adviser to the Prime Minister, one Ross Garnaut, soon to become a major figure in the thrust for ‘macroeconomic reform’ at home and multilateralism abroad. Export controls also irritated the Department of Foreign Affairs, which found embarrassing Trade’s assertive bargaining stance against countries with whom it valued a quiet relationship.

Thus there occurred the phenomenon of personnel from other Ministries and Departments undermining such bilateralist initiatives. If trade policy is not forged through consensual means and a unified front presented to trade partners, what hope is there for trade success? Resources were being pared back; in 1984 key Departmental personnel in export controls left the Department. Although export controls remained on the books, their assertive application became a thing of the past.

In 1985, the second Hawke Ministry ushered in the age of ‘managerialism’. With managerialism came a newly elite Senior Executive Service. Formally, the SES was supposed to be staffed by generalists, applying common managerial skills to any problem at hand. However, the ‘generalist’ senior public servants were specialists in disguise, stamped in the dual mould of political pragmatism and economic rationalism. The age of managerialism heralded the diaspora of personnel as Department Heads from PMC or Treasury/Finance/Industry Commission. Dr. Vince Fitzgerald, ex-PMC, became the Secretary of the Department of Trade.

The bilateralist thrust was operating to good effect in China and Japan but its formal articulation and support in Canberra was lagging. A watershed occurred in May 1985 upon the tabling of the statistical paper to complement the earlier Research Memorandum #4 (Department of Trade, 1985). The parliamentary speech of the new Minister of Trade, Mr Dawkins, was lukewarm in support of the Department’s assertive corporate strategy (Dawkins, 1985a). In effect, bilateralism was thereafter damned with faint praise.
In addition, Austrade was created at the end of 1985. The creation of Austrade was formally intended to eliminate the unproductive use of ministerial resources on bureaucratic minutiae. However, different forms of bureaucratic impediments to trade promotion were erected, not least in the new and extravagant Sydney office. The immediate outcome was the erection of different impediments, with the additional dysfunctional ingredient of the segmentation of trade policy from trade promotion. It is noteworthy that the Department of Trade was not then represented on the Board of Austrade, a peculiar omission.

Of significance was that the ideological centre of gravity had moved substantially between mid-1983 and mid-1985. The 1983 Labor Government began with assertive, if fragmentary, policies in the budgetary arena and in industry and trade policies. By 1985, the components of 'economic rationalism' were in the ascendant - supported ideologically by such concepts as the 'crowding out' and 'twin deficits' theses which pointed to fiscal austerity, privatisation and deregulation, and 'microeconomic reform'.

On 14 May 1986, the Treasurer Mr Keating made an off-the-cuff remark on radio regarding the prospects for a 'banana republic' in Australia. The remark was coincident with rising foreign debt, a plunging exchange rate, and a burgeoning current account deficit. It is important to note that the flippant comment carried with it no considered policy response. Mr Keating's remark might well have been taken as support for assertive continuation of the discretionary policies of 1983-85. The spirit of the age, however, dictated that the banana republic speech was taken as a rallying cry for the more intensive application of the instruments of what has come to be called economic rationalism.

Ironically, the funds for overseas trade postings had been cut in 1986 in an inept manner by an ever-vigilant Department of Finance. Austrade, the Government's trade promotion authority, had its funds cut in real terms in the initial years since its inception in 1985. These changes were occurring in an era where the current account deficit was monthly front page news, and the export drive formally a high priority.

The plug underpinning assertive bilateralism was to be finally pulled with the implementation of the 'machinery of government' reorganisation (the 'Block reforms') in July 1987. Several mega-departments were created. Among them, the Department of Foreign Affairs became the Department of Foreign Affairs and Trade (DFAT).

The Department of Trade was not an equal partner in the merger, but was split up and spread to the four winds. Export controls went to the Resources Division within the Department of Primary Industry and Energy. Responsibility for agriculture also went to the Department of Primary Industry and Energy. DFAT thus had no effective administrative capacity or negotiating instruments in either minerals or agriculture - the bulk of Australia's merchandise trade. Austrade was formally independent, although subsumed within the Industry Minister's portfolio (DITAC). The Policy branch was dispersed, some to DITAC, some to DFAT. The Export Finance Insurance Corporation (EFIC) moved with Austrade. The staff responsible for national interest cases under EFIC went to DITAC and were housed separately and incoherently.

The Trade Development Council Secretariat had lost its supportive bureaucratic umbrella and passed away. The Secretariat's major product, Australia Reconstructed, saw the light of day only after the July 1987 election. It may not have seen the light of day at all if the Bjelke-Petersen drive to Canberra had not derailed an impending coalition victory. In any case, Australia Reconstructed was soon attacked mercilessly within the respectable media. The spirit of the Secretariat went with its Executive Director (Ted Wilsie) into the Department of Industrial Relations, in pursuit of work within the ambit of workplace restructuring.

2. The Result

Only the Multilateral Division of Trade went to DFAT unscathed, from which base in DFAT it flourished to generate the dominant trade culture (cf Crough, 1987). Thus the Department of Foreign Affairs and Trade replaced the Department of Foreign Affairs and the Multilateral Division of Trade. Part of Trade's 'powerhouse', the Economic and Policy Division, went over as the Economic and Trade Development Division, yet the work here increasingly took on the character of a statistical and stocktake nature, the bulk of which became indistinguishable from that produced by the Treasury (indeed, much of the personnel were increasingly staffed from the central agencies). In overseas postings, the diplomatic imperative was re-asserted against attempts to have a stronger and broader presence for commercial and marketing posting. Ironically, however, diplomatic postings were required to give greater
consideration to reporting economic intelligence, a task for which they were ill-equipped.

The multilateralist thrust always had a strong following in the old Department of Trade - multilateralism is a natural and important strategy for an efficient rural producer. Moreover, the Department of Trade was traditionally agriculturally-biased, having a Country/National Party Minister in coalition governments. Paradoxically, the abolition of the Department of Trade was publicly rationalised by the Labor Government as the ending of an apparatus which had supposedly entrenched Country Party power and influence - the laying to rest of the spirit of McEwenism. Yet Country Party leader Doug Anthony, as Minister for Trade and Resources in the 1970s, had been an effective voice for the articulation of a ‘national interest’ that went beyond narrow rural (or mining) interests.

What was effectively being killed off was not Country Party influence but the more assertive elements of a trade policy that had previously enjoyed bipartisan support. As a consequence, the bilateralist thrust which had initiated the sophisticated strategies for entry into the growing North Asia market was emasculated.

Substantively, the multilateralist strategy became detached from its roots and generalised. One part of a trade policy armory became the central dogma of a holy war, a zealotry so committed that insufficient attention was paid to whether the weapons existed to ensure victory or whether the victory itself would be anything other than pyrrhic.11

IV. Recent Developments: Trade Policy Triumphant or at an Impasse?

The Geneva deliberations in December 1993 would appear to indicate a striking validation of the emphasis given to multilateralism in Australia. Certainly, the official story told of wholesale liberalisation of global trade across all sectors. On Industry Commission estimates, Australian export income was predicted to increase by $2.5bn per annum, ultimately creating 50000 new jobs.

Certainly there were formal agreements on manufacturing tariff cuts, new codes on services, and reductions on agricultural subsidies and import quotas. Moreover,

11. In the process, a long succession of capable Labor parliamentarians - Michael Duffy, Neal Blewett, John Kerin, Peter Cook and Bob McMullan - has passed through the Trade junior ministry without any noticeable personal impact on the reigning priorities established during the Dawkins’ ministry.

Australian representatives, as de facto spokespersons for the Cairns Group, imposed atypical pressure on negotiations (Gill, 1994a). Yet the ultimate accord backed down on the arenas in which Australian representatives threw their dominant energies - grains - allowing continued subsidisation by the US and the EC till the year 2000. If one is inclined to treat with caution the public optimism of officials and media reports, the excessive secrecy in Australia surrounding the details of the accord provides a reasonable basis for further discounting such optimism.

In addition, the GATT package itself appears to be interpreted by the major players in a more flexible manner than that of Australian representatives. Immediately following the supposedly dramatic conclusion of the Round, the US and Japan resumed their bilateral warfare as if the Round had never taken place. The US has also, through 1994, gradually resuscitated subsidised food exports, notably in wheat, barley and dairy products, and is in the process of formalising this in a new Farm Bill to facilitate an aggressive export posture.

Even the most ardent optimists are now querying the gains from Uruguay. A report commissioned by the pro-multilateralist ABARE, entitled The Political Economy of US Agriculture, and written by US agricultural economists, concludes that the Uruguay Round achieved “at best, a marginal reduction in protection levels” (Gill, 1994b).

The policy-makers do not appear to have engaged in a hard-headed analysis of the character of the Uruguay Round outcome and subsequent events, and their implications for the Australian position. The purist vision taken into the Round is hampering an adequate analysis and response to these events. The long term impact of the Uruguay Round on Australia’s trade prospects requires the full passage of time, yet there appeared immediately indications of the qualified character of the Round’s deliberations. An intelligent and strategic analysis based on the history of GATT would have placed Australian policy-makers and negotiators in a better position to manage the fundamental conflicts of interest that continue to thrive.

With the Uruguay Round in its early stages and with domestic uncertainty regarding its outcome, the Department’s attention turned increasingly to Asia. On Prime Minister Hawke’s initiative, the Asia-Pacific Economic Cooperation forum (APEC) was established in 1989. It was initially intended simply and reasonably as a forum for the airing of topics of national concern in the region (cf DFAT, East Asia Analytical Unit, 1992:220). Yet there has since occurred a divergence of capacities and
Mounting concern over the US' hydra-headed continuing pursuit of its self-interest, especially in 1992-93, led to murmurs that APEC might be re-constructed into a defensive regional trade bloc. This ill-considered notion has gradually given way to the present vision for APEC - that of the Australian version of multilateralism (a beacon for free trade), though without any of the mechanisms or qualifications embodied in the GATT principles. APEC has thus moved from being an initiative of sensitive diplomacy, built on caution and limited aims cognisant of regional complexities, to a rhetorical warhorse in which real gains may be swamped by diplomatic belligerence on the Australian side and linguistic and bureaucratic obfuscation everywhere else.

Is there a centre of gravity of trade strategy? The strand of thinking that is pervasive is that of enhancing the working of market forces. At the international level, strategy is centred on influencing the formal rules for trade. However, viewed from the perspective of domestic politics, trade strategy appears to be a subsidiary adjunct of domestic 'microeconomic reform' in getting the market signals right, and in generating a competitive regime, partly by enforcing openness of the Australian economy.  

This vision dominates the 'Garnaut Report', Australia and the Northeast Asian Ascendancy (Garnaut, 1989), which appears to have become official policy without any formal government acknowledgment (cf DFAT, East Asia Analytical Unit, 1992: Ch.1), and in spite of a range of sustained criticism both bureaucratic and academic (cf Leaver, 1990; Matthews & Ravenhill, 1991). It dominates (though less stridently) the vision of subsequent reports emanating from DFAT's East Asia Analytical Unit (cf DFAT, East Asia Analytical Unit, 1992b: Ch.4). It also permeates the conceptual orientation of the annual TRAID document, outcome of the 'National Trade Strategy', spawned in 1991 (DFAT, 1994b: Section 1).

This interpretation is consistent with the Government's unilateralist approach to tariff reduction, otherwise inexplicable. The formal structures of GATT recognised the principles of freer trade and of the legitimacy of 'national interests' and institutionalised the tension. Compromise on mutually agreeable terms was the vision on which GATT was established, reflecting the politics of the immediate post-war period. In order to make gains, one has to have something to bargain away. Yet the Government's approach to tariffs was to reduce them unilaterally.

Coincidentally, bilateralism has thus been resurrected pragmatically. The McKinsey Report into Austrade (McKinsey, 1990) rediscovered, at considerable expense to the exchequer, the importance of targeting efficiently the limited resources available for trade promotion - an important ingredient of early 1980s bilateralism. DFAT has increased the intensity of its market advisory and promotional activities, from which has ensued some admirable developments - best manifest in the opening of regional consulates in Japan to get closer to local industries and networks (cf Roberts, 1992).

Yet this hard-edged activity remains sporadic.  

The 'National Trade Strategy', after initial successes in rationalising the fragmented trade bureaucracies of the Australian federalist structure, is short on strategy per se. The bilateral and sectoral coverage in the 1994 draft TRAID document, although admirable in coverage, is essentially a stocktake. A succession of ministers (Blewett, Kerin) have reacted strongly to public claims of neglect of bilateral strategies. Peter Cook as minister has fought for more resources for bilateral initiatives (Gill, 1993b). Yet ministerial visits and information stocktakes do not a bilateral trade strategy make. Nor do additional resources make a quantum difference if they are used in the employment of extra senior personnel with a 'central agency' mindset, as is occurring in 1994.

To a certain extent, differences over trade policy have been obscured because of possibly unsatisfactory labels. Conflict has typically been labelled as that occurring between the principles (and the proponents) of 'multilateralism' and 'bilateralism'. The varying principles may be better labelled as 'rationalism' versus 'realpolitik', respectively. The rationalist position interprets free trade as a maxim of universal applicability, the power of reason to win over recalcitrant players, and free markets as providing an adequate response to the rationally-created environment. The realpolitik position interprets trade as a variable-sum 'game' between competing players in which acknowledgment and strategic development of a 'national interest' is essential to ensure an adequate share of the cake generated by tentative acts of cooperation.

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12. This interpretation is consistent with the Trade portfolio being dropped from cabinet rank (in December 1991), inconceivable in an earlier age. This lowered status coincided with increasing criticism by the business community of the Labor Government's policies (cf Lague, 1992). Trade was subsequently returned to cabinet ranking in March 1993.

13. The continuing failures in selling products rather than ideas is neatly captured by Andrew McCardie (1993). McCardie notes that "Australia has made a nuisance of itself in Europe with its aggressive pursuit of the GATT round on free up world trade but, ironically, is putting in a woeful performance at getting its food exports into the Continent".

From a realist perspective, recent manifestations of the flaws in the rationalist position would include:

- the presumption that Asian industrial development has been dependent on "... an open multilateral trading environment for its success" (DFAT, East Asia Analytical Unit, 1992b: 61).

- at the domestic level, the dependence on general equilibrium models (for example, the Industry Commission 'Salter' model) for estimates of likely benefits in trade expansion from deregulatory measures.

- the adoption of purist positions at international forums of GATT and APEC without prior consideration of the potential impact of domestic industry development policies, and in turn on domestic industry development per se. Current programs in information technology, pharmaceuticals, telecommunications, textiles/clothing/footwear, general government procurement policies, etc. are placed in the firing line by assertive players (not least US representatives) because of their possible incompatibility with GATT guidelines, most notably under a code within the category of Trade Related Investment Measures (TRIM) (cf. Gill, 1993a).

- the persistent inference that recent increases in exports manufactures and of elaborately transformed manufactures (ETMs) in particular are the product of the deregulatory impact on market processes of the microeconomic reform agenda (cf. DFAT, 1994b). There is no acknowledgment of the significant role in this ETM export performance played by a range of discriminatory 'interventionist' structural policies, policies which run against the deregulatory grain (cf. Sheehan, et.al., 1994).\(^{15}\)

- the emphasis on gross export results to the neglect of net export indicators and strategies (cf. DFAT, 1994b: passim.), coupled with a segmented approach to the balance on current account which is treated as an arena for macroeconomic policy rather than an arena for trade policy strategy.

The multilateralist thrust has concentrated on securing access for Australia's

\(^{15}\) Even a casual examination of merchandise trade exports of products arranged hierarchically in value terms (cf DFAT, 1994a) provides striking testimony to the correlation between the ranking of exports of value-added products and particularistic government assistance programs.

'\textit{traditional}' exports of rural commodities; yet the rationalist underpinnings of this thrust has proved impervious to the implications of the politics of production of and trade in these commodities. The generic flaw in the rationalist position is most transparent regarding value-added commodities and Australia's future as an exporter in this arena. The underlying market model presumes a certain automatic character to industrial dynamism, once the channels have been cleared of interference and the proper signals are established. Australia doesn't need a conscious program for creating a comparative advantage in new products that will ensure a sustainable balance on current account, because the market fulfils that function.\(^{16}\) This implicit model is symptomatic of the general vision which pervades the policy process in Australia. Policy advisers have consistently declined to examine openly the character of industrial dynamism, either historically or globally. It is predictable that the prevailing prejudices would carry over into the arena of trade policy.

In sum, from a realist perspective a trade policy centred on the rhetoric of free trade is not soundly based on the realities either of trade politics or the sources of economic and industrial dynamism. Free trade 'multilateralism' has been expanded from a reasonable basis for a particular and specific strategy for enhancing exports of a small range of rural products, and magnified uncritically into an abstract and universal ideal. In the process, a multi-faceted and strategic approach to trade policy has gone by the board. In the meantime, myriad efforts continue to be made to sell particular products in particular locations, but these efforts are constructed in a pragmatic and fragmented fashion lacking conceptual coherence, effectiveness in delivery, and adequate delivery/conception interaction. An alternative intellectual and institutional wherewithal, previously active, has been systematically spread to the four winds. It is more than merely ironic that those structures are needed afresh; it involves the entrenchment of a costly political and bureaucratic myopia.

\(^{16}\) The adverse consequences of this lassitude are reflected in the failure of the Australian-based food industry to build a value-added processed food specialisation and to mount a profitable export trade on this basis (cf. Instane, 1995).
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<tr>
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<th>Author(s)</th>
<th>Title and Details</th>
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<tbody>
<tr>
<td>113</td>
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