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Decision on US trade deal a critical policy turning point
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The fate of the Australian-United States Free Trade Agreement is due to be decided next month in the Senate. Regardless of the verdict, the decision looks set to mark a tipping point for Australian trade policy.

A vote in favour of the FTA would send a clear signal that Australia is now committed to the path of preferential, bilateral trade agreements. True, this would not be the first such agreement to be signed by Australia: we already have deals in place with Singapore and Thailand. However, the US agreement has been much more defining in terms of the surrounding policy discussion than its two predecessors, both of which largely passed under the radar screen of public debate. A "yes" vote would for all practical purposes mark the end of the policy debate over multilateral versus bilateral trade.

Following the preferential trade route would raise several important issues for policy. Perhaps the most obvious would be the question of what comes next. Canberra has already committed to a scoping study for a possible bilateral trade agreement with China, which is due to be completed by October 2005 (although an earlier completion date seems quite likely). A deal with Asia's newest trade powerhouse would be attractive in many ways. But it would represent an even stiffer challenge for our trade negotiators than the controversial agreement with the US.

A more fundamental issue relates to how the Government and its trade officials can ensure that the negotiation of a series of agreements is in the interests of Australian exporters and importers. Proponents of bilateral deals claim they are building-blocks towards a world of freer multilateral trade. Yet there is also a risk that the spread of a web of complex, and potentially inconsistent, rules of origin could actually come to represent a significant barrier to international trade flows. A crucial challenge is to craft policies that minimise the distortions associated with such agreements, and that avoid the worst case scenario: a global economy potentially even more fragmented than the competing trade blocs that marked the inter-war period in the 20th century.

A decision to reject the Australia-US FTA would also have substantial consequences for future trade policy. Much as a "yes" vote would commit Australia to preferential trade, a "no" vote could well signal the death of bilateral trade agreements as a policy option for Australia. If the Government is unable to deliver a US deal, then it seems unlikely that it would push ahead with an even more difficult deal with China. Australia's credibility in future bilateral trade negotiations would also be undermined.

If the preferential route was blocked, that would still leave the multilateral option. Indeed, there is no doubt that a future multilateral agreement under the auspices of the WTO would be in Australia's national interest, and that significant progress in the multilateral arena would almost certainly bring much greater benefits than any preferential agreement. Yet the cold reality is that any such progress lies almost entirely out of Australia's hands. Whether the WTO delivers will be determined principally by whether the US and the European Union can come to an agreement acceptable to both. Australia can do little more than urge them on from the sidelines.

So would anything be left for an activist approach? One option would be to try to re- invigorate the ideals of region- wide trade liberalisation as enshrined in the old APEC approach to trade policy. While this is a worthy goal, it seems unlikely to make much progress given the current regional environment, where most countries are now involved in bilateral trade deals of their own, and where much of the action on regional diplomacy is migrating to ASEAN plus three (China, South Korea and Japan). Another alternative, therefore, would be to work towards some form of regional agreement with ASEAN. However, this option would run into many of the same kinds of difficulties associated with bilateral agreements. In practice, therefore, trade policy after a "no" vote would probably be reduced to "watch and wait" for the WTO.

Opposition to the FTA has produced a marriage of convenience between WTO- supporting free traders and protectionist-minded economic nationalists. This alliance would not long survive a "no" vote against the FTA, and would not provide a sound foundation for any future attempts to introduce trade reform.

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