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“Global Trade: Is Multilateralism Relevant?”

Address by Dr Emerson to the Partnership Summit
Monday January 24 2011

Mumbai
India
(Embargoed until 8pm EDST)

The history of human welfare has been one of remarkable progress from the end of the Second World War and in the last 20 years in particular.

Between 1950 and 2008, average global per capita GDP increased by 260 per cent with the increase being 50 per cent since 1988.¹

Most of these gains have come in the developing world where improvements in income have meant an escape from crushing poverty for millions, not simply the purchase of a sports car for a few.

Yet the underlying causes of this progress are often forgotten or glossed over, both in public discourse and in policy making circles.

It is these causes which we must always keep in mind whenever we consider how to better the lives of our fellow citizens, both on the domestic and the international fronts.

And it is these causes which we as leaders must constantly emphasise to take on those who would impede our continued progress, whether out of ignorance or self-serving opportunism.

While it is fashionable to highlight the role played by advances in technology in the improvement in human welfare - and these have indeed played a great role - the acceptance of the basic tenets of market-based economics have not only allowed the gains from technological

¹ Maddison historical dataset.

innovation to be translated into the betterment of people's lives, competitive markets have provided the incentives for the advances to occur in the first place.

It was Adam Smith who famously first articulated the notion that left to their own natural dynamics, markets will coordinate people's own self interest in such a way that all individuals will be made better off.

This notion was formalised by a number of economists, most notably Kenneth Arrow and Gerard Debreu, in the early 1950s such that the result that markets allocate resources efficiently is now known as the First Fundamental Theorem of Welfare Economics.

On this foundation was built an understanding of how markets work, and when they don't, how competition drives progress and innovation, and how trade and mobility can better people's lives no matter a country's natural endowments or size.

At no time in our history has humanity had a better understanding of what creates sustainable wealth, what impedes it and what we as policy makers need to do to ensure our children live in a better world than we currently inhabit.

In the case of Australia, like so many countries, we were slow to embrace the basic lessons from economics in our public life.

For years we thought that government knew best, government should occupy the commanding heights of the economy, and regulate most aspects of our economic life - and that the outside world was an economic threat not an opportunity.

I can proudly say that I played a part in the great reforming Labor Government of Bob Hawke in the 1980s.

We understood and accepted that markets were better at allocating private resources than government ministers and officials, openness to competition was what drove innovation and consumer price restraint and openness to the world was what would ensure the prosperity of future generations, not fearfully hiding behind a wall of protection.

The Hawke Government floated the Australian currency, dramatically cut tariffs on imports and eliminated import quotas.

We liberalised the Australian financial services sector, and in doing so opened up Australia to foreign investment.

The result, which was later built upon by the Keating Labor Government, was to transform the Australian economy from an over-regulated inward-looking economy with dismal productivity growth to a dynamic, outward-looking economy with record productivity growth and an unprecedented improvement in the average material living standards of Australians.

The Australian Government, led by Prime Minister Julia Gillard, is committed to continuing this legacy of fundamental economic reform.

We are moving to price carbon, eliminating the harmful effects of this externality and being part of a global solution to climate change.

We are unifying state regulations to create a truly national economy.

And we are embarking on the greatest round of trade liberalisation since the Hawke Government's reforms of the early 1980s.

India, too, has reaped the benefits of pro-market reforms.

All those involved in the Narasimha Rao Government's reforms during the early 1990s can look on their achievements with great pride.

Dramatically accelerating the reforms initiated under the preceding Rajiv Gandhi Government, these pro-market reforms, like those in Australia, were the policy consequence of the acceptance of modern economics by policymakers.

They are commonly credited with sounding the death knell of the License Raj, a system where bureaucrats made investment, production and pricing decisions, competition was almost unheard of and the outside world was seen as an economic threat, not an opportunity.

The Rao Government - with then Finance Minister Manmohan Singh, a key architect - slashed import duties and controls and reformed the financial sector, opening India up to international trade and investment.

Average tariff rates fell from 85 per cent to 25 per cent² and foreign investment grew from practically zero to \$5 billion a year by the mid 1990s.³

The Government rationalised or eliminated inefficient and unnecessary regulations, allowing entrepreneurs to innovate and start new businesses which were able to compete both domestically and internationally.

It eased controls on the Rupee and started to eliminate state-run monopolies.

These reforms were further built on by successive governments, all accepting the wisdom of modern economics, and India is now one of the fastest growing economies in the world, with average per capita GDP growth of around 7.5 per cent compared with 1.25 per cent in the years between 1950 and 1980.⁴

The impact of these reforms has been enormous.

Literally hundreds of millions of Indians have been lifted out of poverty since the early 1990s.

This was truly unimaginable progress only a few short decades ago.

Now I do not want to claim that either India or Australia can rest on our laurels and can look forward to never-ending improvements in welfare without further economic reforms.

Nor do I want to claim that the economic profession has all the answers to society's problems.

Great progress has been made both in our understanding and in our application of this understanding to policy, but neither field of endeavour should become complacent.

² [The Indian Growth Miracle](#). J. Bradford DeLong (July, 2001).

³ Same as above.

⁴ ["Economic survey of India 2007: Policy Brief"](#). OECD (2007).

The Global Financial Crisis has reminded us that markets can be susceptible to manipulation, can be cruelly and violently volatile and that there is a place for prudent regulation.

But it should not deter us from accepting the basic tenets to which we owe so much of our current prosperity.

And it is again these tenets which form the justification for international and especially multilateral trade liberalisation.

While there is a role for bilateral and regional trade agreements, it is multilateralism which brings the greatest benefits for all.

This is because the more open and free a market is, the more prosperity it produces.

Global prosperity and security can only be based on a global trading system and a global market.

Just as we have come to accept the benefits of competition in our national economies, we must not forget about the benefits of competition in international economic relations.

Just as we are proud of liberalising our domestic markets, we should continue to strive to liberalise the global market.

And as we strive to continue the legacy of domestic economic reforms, we should also re-double our efforts to extend the great legacy of multilateral trade liberalisation.

The World Trade Organization and its predecessor, the General Agreement on Tariffs and Trade, have been the key mechanisms through which the modern global economy has come into being.

From the first round in 1947, to the last completed round in 1994, these successive rounds of trade liberalisations have not only yielded the international trading system, and not only created a global marketplace in which all countries can compete, they have underpinned the economic stability and prosperity which have made our domestic reforms so successful in improving the lives of our citizens.

We have now been negotiating the Doha round for 10 years, and there is no doubt in my mind that the improving prosperity we have all experienced over most of these 10 years has led to a degree of complacency.

Just as was the case in Australia's great reforms of the 1980s and India's great reforms of the 1990s, the case of reform is made clearest in the context of a crisis.

It seems once we stare into an abyss, the difficulties of changing our ways seem manageable.

But this does not mean reform in less turbulent times is impossible.

It is now the time to brush off this complacency, to remember the great benefits which will accrue to all once we implement an ambitious and extensive Doha round and to get down to the business of finally concluding this next phase of trade liberalisation.

It is the right thing to do for our citizens.

It is the right thing to do for our children and it is the right thing to do for each other.

We all accept the power of markets to produce wealth, security and prosperity.

We all accept the power of market reforms to make these improvements possible.

It is time we reaffirmed our acceptance of the fact this is just as true in the international as in the domestic sphere.

It is time we made history once again.