

# Chapter 3

## Bilateralism and multilateralism: global engagements

### Addressing globalisation

3.1 Not surprisingly, the White Paper's discussion of bilateral and multilateral approaches to foreign policy is grounded in a particular view about the 'global scope' (p. viii) of Australia's interests, and the challenges which flow 'from the process of globalisation' (p. ix).

3.2 As a phenomenon, 'globalisation' remains unexamined by the White Paper. Its effects are simply stated—it 'brings opportunities'; it has 'raised living standards in Australia and has lifted hundreds of millions out of poverty in poorer countries'; it has 'increased countries' vulnerability to transnational threats'. (p. ix) Overall, globalisation is treated as an unstoppable force, to which governments must respond with 'outward looking policies'.

3.3 The Committee is struck by the extent to which both globalisation and national interest feature strongly in the White Paper without any systematic consideration of the *problematic* aspects of the relationship between the two. It seems simply to be assumed that globalisation is good for Australia, that it is in our national interest economically to go with the flow, and that we can avoid any downsides by astute management of our borders and strong assertions of national sovereignty where the situation demands it.

3.4 However, critics have been quick to point out that it is not at all that straightforward. On this account, the White Paper has singularly failed.

The government's declaratory policy has oscillated between categorical defences of national sovereignty and equally categorical assertions about the unstoppable march of globalisation and the necessity of economic openness and adaptation... Simplistic notions of closure and national resistance are... paired with exhortations to accept the necessity of openness and the folly of opposition. The net result of this discourse has been a pervasive failure on the part of the government to come to terms with the real nature and complexity of contemporary global politics and a concomitant failure to adjust either conceptually, practically or ethically. The disservice this does Australia is clear: sovereign closure is ill-suited to solving problems of global refugee movements and environmental breakdown as uncritical openness is to addressing the economic dislocations and political realignments caused by economic liberalisation.<sup>1</sup>

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1 Reus-Smit, C, *Lost at Sea: Australia in the turbulence of world politics*, (Working Paper 2002/4, RSPAS, Australian National University, July 2002), p. 7.

3.5 The Committee agrees with Reus–Smit that ‘highly categorical notions of sovereignty and simplistic ideas of globalisation are two of the most significant conceptual impediments to understanding the full complexity of contemporary world politics’.<sup>2</sup> Nation states will continue to persist; boundaries between international and domestic realms will continue to blur; interdependence will continue to grow.

All of this suggests that we need more nuanced understandings of state sovereignty and a more specific and disaggregated identification of transnational phenomena than the blanket term ‘globalisation’ can provide.<sup>3</sup>

3.6 In the Committee’s view, it is something of a shortcoming of the White Paper, and of Australia’s foreign policy generally, that the government has not developed a sufficiently sophisticated analysis of the interaction between domestic and global issues and the political and economic structures that are required to manage that interaction. This is probably nowhere more apparent than when dealing with the dilemma of economic growth and environmental sustainability.

On the one hand we have a profound crisis in the global ecosystem, a system ruled by the first law of ecology, ‘everything is connected to everything else’. On the other hand, we have a fragmented international political order in which the international and domestic authority of national governments rests in large measure on their capacity to deliver perpetual economic growth. In such a world, governments are faced with two challenges: somehow they must institute domestic environmental adjustment strategies that harmonise with effective international programs to protect the global ecosystem; and simultaneously reconcile these adjustment programs with their promotion of growth economics... The paradox is, of course, that growth will ultimately be brought unstuck by degradation unless economic strategies are changed. Yet the incremental nature of the environment breakdown, which makes it such an un–crisis–like crisis, forestalls awareness of this paradox and encourages governments to pursue ‘business as usual’ strategies.<sup>4</sup>

3.7 There is nothing in the White Paper that suggests a realistic awareness of these kinds of challenges. Yet in many respects they have enormous implications for the ways in which all governments should approach their commitments and choices when it comes to bilateral and multilateral options for dealing with global issues.

3.8 The White Paper seems to have conveyed different messages to different readers concerning the nature of the government’s commitments regarding bilateral

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2 Reus–Smit, C, *Lost at Sea: Australia in the turbulence of world politics*, (Working Paper 2002/4, RSPAS, Australian National University, July 2002), p. 8.

3 Reus–Smit, C, *Lost at Sea: Australia in the turbulence of world politics*, (Working Paper 2002/4, RSPAS, Australian National University, July 2002), p. 8.

4 Reus–Smit, C, *Lost at Sea: Australia in the turbulence of world politics*, (Working Paper 2002/4, RSPAS, Australian National University, July 2002), pp. 16–17.

and multilateral relationships. The words ‘balance’ and ‘tension’ pepper much of the academic and expert commentary about where Australia’s priorities lie.

3.9 The White Paper claims, for example, that ‘the emphasis of the Government will remain on multilateral trade liberalisation’ but immediately proceeds to the declaration of its ‘active pursuit of regional and, in particular, bilateral liberalisation’ that will ‘compete with and stimulate multilateral liberalisation’. (p. xiv)

3.10 It seems to the Committee that the government’s emphasis and preference, at least with respect to trade, is clearly discernible in the relative effort—both ministerial and bureaucratic—that it devotes to bilateral initiatives. Such a sense also came through in the evidence presented to the Committee from the Department of Foreign Affairs and Trade.

I guess the white paper and the government’s response might be that we are not opposed to multilateralism. We think it is very important for Australia, too. It is just that we believe we are putting a bit more emphasis on doing things bilaterally and even occasionally doing things on our own if we think it is in the national interest. So it is the emphasis you give to that. I do not think that anyone is arguing that multilateralism is finished and the rules that underpin that are finished. It is about the balance you place on all these things.<sup>5</sup>

3.11 This emphasis on bilateralism appears also to apply in other areas of international engagement, and was remarked on by several commentators.

In the new [Howard] government’s early years some differences in style and direction did make themselves felt. ‘Practical bilateralism’ was consistently emphasised. There were many fewer ‘initiatives’ in the [former Foreign Minister] Evans style. The earlier intense activism and would-be reformism at the UN faded from view, their decline probably accelerated by Australia’s failure to win a Security Council seat in 1996. Some of the multilateral institutions upon which the Coalition did continue to focus diplomatic effort, such as APEC and the ASEAN Regional Forum, were distinguished by the fact that they helped to preserve US engagement in the region.<sup>6</sup>

3.12 In the Committee’s view, the balance between engagement in multilateral and bilateral relations is a delicate one, particularly for a so-called ‘middle power’ like Australia. It tends to be conventional wisdom that middle powers should be assiduous in cultivating multilateral relationships, because it is through multilateral arrangements and institutions that a modest power can ‘punch above its weight’. Membership of a multilateral system helps a country to build relevant coalitions of support according to the nature of the particular interest it is seeking to pursue. Solid international rules and agreements enable smaller powers to negotiate their way to

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5 *Committee Hansard*, 4 August 2003, p. 51 (Dupont)

6 Goldsworthy, D, ‘An Overview’ in Cotton & Ravenhill (eds.), *The National Interest in a Global Era: Australia in World Affairs 1996–2000*, (Oxford University Press (2001)), p. 13.

preferred outcomes given that they do not have the economic nor military means to press their case.

3.13 The choice between multilateral or bilateral strategies becomes particularly fine when one is focused on areas of immediate national interest. It is then that questions of a country's 'duties beyond borders' may be seen as an impediment, and multilateral obligations an inconvenience.

Certainly internationalist policies have their connections back to self-interest, but these tend to be diffuse and indirect rather than immediate and direct. Hence, when a government makes a point of insisting on its overriding concern with the national interest... in foreign policy, the question of how it sets about its work in relation to duties beyond borders is a particularly interesting one. For although there is no necessary contradiction between the pursuit of self-interest and the fulfilment of duties beyond borders, there is certainly scope for tensions between them, and the points of trade-off may not always be easy to locate.<sup>7</sup>

3.14 One of the difficulties encountered by governments involved in multilateral arrangements is that domestic political imperatives will often override an obligation under an international agreement. This can lead to inconsistencies or contradictions in a government's approach to international affairs. Matters can become even more problematic where issues of national sovereignty are involved.

[The] government has favoured bilateral over multilateral diplomacy. The former has been presented as the 'basic building block' of Australia's external relations, and a policy of 'selective multilateralism' has replaced the former Labor government's prioritising of international institutional cooperation. When multilateral cooperation has been needed in areas to do with economic globalisation, or when other issues (such as nuclear weapons proliferation or the International Criminal Court) are not thought to challenge Australia's narrowly defined domestic sovereignty, the government has been an enthusiastic participant. But when multilateral cooperation is required in non-economic issues areas, and when it involves international legal rules compromising the government's sovereign rights domestically (as in the areas of human rights, refugee law, and environmental protection) energetic resistance has been the order of the day.<sup>8</sup>

3.15 In the Committee's view, one of the key considerations attaching to multilateral agreements and institutions is the extent of their legitimising authority. On this account, any substantial move away from serious multilateral engagements exposes a country to the risk of damaging its international reputation.

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7 Goldsworthy, D, 'An Overview' in Cotton & Ravenhill (eds.), *The National Interest in a Global Era: Australia in World Affairs 1996–2000*, (Oxford University Press (2001)), pp. 23–24.

8 Reus-Smit, C, *Lost at sea: Australia in the turbulence of world politics*, (Working Paper 2002/4, RSPAS, Australian National University, Canberra, July 2002), p. 7.

The importance of multilateralism is often misunderstood, even by its advocates. Usually, the subordination to international norms, of either a substantive or a procedural kind, is justified simply on the ground of interest. In fact, the central question these norms and procedures raise is one of legitimacy. It is generally true, as the multilateralists insist, that if you want to get your way in the world, you had best do so through working with others. But surrounding these calculations of interest—existing, as it were, in the atmosphere within which these passions and interests get registered and adjusted—is the more basic question of authority as distinguished from power. Like confidence in the financial markets, the aura of legitimacy is a difficult achievement requiring years of patient labour and the steady observance of exacting standards. Also like confidence, legitimacy can vanish in a hurry and, once lost, is very difficult to regain. Once lost, even proper consultations of the national interest are called into question by others, and the whole can easily then seem a hive... of naked self-interest.<sup>9</sup>

3.16 The Committee explored with several witnesses the question of Australia's standing in terms of its multilateral commitments. In particular, it sought advice about how the multilateral dimension has played out in practical diplomatic terms.

The third balance I would like to touch on briefly is the multilateral one. It is about the balance between being a good international citizen...—playing an active and constructive role in the United Nations and in other multilateral bodies—and in a sense stepping back from that when you feel there may be some aspect of your sovereignty which may be affected.

[P]erceptions are very important in foreign policy. There is a perception out there, in Asia and New York, that on all of these issues we have moved too close to what was sometimes regarded as a relationship of sycophancy to the United States, that we have moved too far away from the multilateral trade objectives, and that we have moved too far away from the UN.<sup>10</sup>

3.17 Given that the Kyoto protocol on greenhouse gases is frequently cited as the quintessential occasion on which domestic and international requirements clash, the Committee sought an account of how the government addressed that tension between the local and the global.

The government does think globally, because clearly climate change is a global problem. That is precisely why the government does have problems with the Kyoto convention, because it doesn't provide the sort of global disciplines that the government thinks will seriously address the problem of global warming. When you look at the two sides of your equation, think globally and act locally, in terms of acting locally, the government is, as you know, committed to achieving the targets that have been set out under the Kyoto protocol. The difficulty for the government is that what the Kyoto

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9 Hendrickson, D C, 'Toward Universal Empire: The dangerous quest for absolute security', *World Policy Journal*, (Fall 2002), vol.19, no.3, p. 4.

10 Transcript of private briefing by Mr Richard Woolcott, AC, 21 August 2003, pp. 4–5.

protocol imposes on other countries is simply not going to make a substantial enough contribution to the problem of global warming. It is the deficiencies on the international side that prompt the government's reservations about Kyoto. It is not a very good piece of global machinery. There is not much point signing up to a piece of global machinery that you don't think is going to work, if only because that then makes it less likely that you will be able to come up with something better, if there is any scope to do so.<sup>11</sup>

3.18 Notwithstanding the Committee's assessment that the White Paper declares an emphasis in the government's foreign and trade policy agenda on bilateral effort, it should be noted that the demands of Australia's multilateral engagements will continue to require the devotion of substantial resources to their maintenance and development.

From a foreign policy perspective, the sheer number of international organisations and agreements that have to be monitored and serviced each year continues to rise. Many multilateral commitments are not fixed agreements, but involve participation in organisations with evolving policy agendas of their own, all of which must be monitored and responded to by Australia's foreign policy bureaucracy, and which have regular meetings that must be attended either by ministers or officials.<sup>12</sup>

3.19 The Committee agrees that such an array of international commitments 'increases the complexity of, and potential for, contradiction in Australian foreign policy. Policy initiatives must be audited to ensure that they do not compromise any of the strands of the growing web of Australia's multilateral commitments'.<sup>13</sup>

### **Australia and the United Nations<sup>14</sup>**

3.20 While the White Paper covers some areas in Australia's foreign relations in considerable detail, one set of issues which is discussed comparatively briefly is the United Nations and Australia's approach to its present and future role.

3.21 The Paper discusses the United Nations in Chapter Two ('The international environment: challenges and responses'). It comments (in two paragraphs on page 25) that the United Nations 'is an important part of the machinery of global cooperation', but it 'requires reform if it is to provide the sort of multilateral system that would

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11 *Committee Hansard*, 21 August 2003, pp. 83–84 (DFAT)

12 Gyngell, A, & Wesley, M, *Making Australian Foreign Policy*, (Cambridge University Press 2003), pp. 241–242.

13 Gyngell, A, & Wesley, M, *Making Australian Foreign Policy*, (Cambridge University Press 2003), pp. 241–242.

14 The discussion below in this Chapter draws heavily from a paper prepared for the Committee by Dr Frank Frost (Foreign Affairs, Defence and Trade Group, Department of the Parliamentary Library)

better serve the interests of its members in practical cooperation to deal with contemporary challenges’.

3.22 The Paper goes on to state:

Australia, like others, seeks to strengthen the efficiency and effectiveness of the United Nations—supporting UN Secretary-General Kofi Annan’s efforts and promoting needed reform of UN treaty bodies. The Security Council continues to have an important role in the maintenance of international peace and security. Its membership should be expanded better to reflect contemporary international realities. Ultimately, the effectiveness of the United Nations will depend on the ability of its member states to set clear priorities for the organisation and to guide its work. (p. 25)

3.23 The White Paper also comments on the UN’s role in peacekeeping and on Australia’s extensive contributions to a number of those operations, including in Cambodia and in East Timor. (pp. 44–46). It states that:

Working through the United Nations, the international community has sometimes acted to deal with such threats. The peacekeeping operation of the United Nations Transitional Authority in East Timor, to which Australia was the largest single contributor, showed how such operations can work well. The Government has recognised Australia’s global interests in maintaining an effective international peace-keeping system by contributing Australian forces to UN peacekeeping operations in Africa and the Middle East. The United Nations also plays a valuable role in reconstructing states destroyed by conflict. Its work in Cambodia has improved Australia’s security environment. The United Nations will continue to play a key role in helping concerned governments rebuild states whose failure is a threat to international peace and security.

3.24 The Paper goes on to comment that ‘when swift and decisive action is needed to deal with threats to international order, it is likely that national governments will organise international military coalitions themselves’. Conspicuous examples have included the coalition against Iraq’s invasion of Kuwait and the International Force for East Timor (INTERFET). The Paper continues that:

But when the United Nations has not been able to respond, as in the case of Kosovo, it has fallen to states with the capacity and the willingness to take action to preserve peace and security. In deciding whether to participate in such coalitions, the Government will be guided by whether an Australian role will advance Australia’s national security and our global interests. (p. 46)

3.25 While these comments are relevant and useful, it is notable that the White Paper does not attempt more detailed assessment of the UN’s capacities and limitations. As has been noted, it is suggested that the UN ‘requires reform’, but little detail on what reforms might be needed and sought are provided. The Paper points to the need to reform the UN’s electoral groups (p. 24; groups which are organised to facilitate elections of member states to UN bodies).

3.26 It is also suggested that the UN Security Council's membership should be expanded 'to better reflect international realities'. (p. 24) However, no further discussion is provided on the type of expansion envisaged or on the likelihood of this being achieved.

3.27 Evidence on this matter from a former Australian representative at the UN was not encouraging:

Somebody told me the other day that I risked becoming an extinct species, like a British colonial governor. I said, 'What do you mean?' He said, 'You were our last representative on the Security Council.' That was back in 1985–87. He said, 'We will never get elected to the Security Council again.' We tried in 1996 and failed...

I think it is true that, in the foreseeable future, the only way we will get elected to the Security Council is if we are unopposed; and that is not easy. ... As soon as we said, 'We might stand in 2008,' what happened? Up pop Italy and Austria saying, 'We'll stand,' because they know they can beat us.<sup>15</sup>

3.28 The limitations of the United Nations in contributing to international security have often been evident in the past decade. As the White Paper observes:

...the effectiveness of the United Nations will depend on the ability of its member states to set clear priorities for the organisation and to guide its work. (p. 25)

3.29 Where members have been unable to set clear priorities, the UN has been ineffective, as in the instance of what Professor Mats Berdal (University of London) has described as the 'shameful inaction over Rwanda in 1994'.<sup>16</sup>

3.30 However, as the White Paper also notes, the UN has been of substantial value to Australia and this was illustrated in relation to East Timor in 1999. The United Nations was able to facilitate and legitimise an Australian-led and regionally supported response to the situation which could not have been achieved through bilateral relationships alone.<sup>17</sup>

3.31 The UN has an important capacity to confer legitimacy on international actions, particularly through the Security Council:

The Council, is quite simply, the only forum of its kind; that is, a forum able to address, if not resolve, security challenges of international concern and crucially, to confer near-international legitimacy on the actions of states or

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15 Transcript of private briefing by Mr Richard Woolcott, AC, 21 August 2003, pp. 4–5.

16 Mats Berdal, 'The UN Security Council: Ineffective but Indispensable', *Survival*, (vol. 45, no. 2, Summer 2003), p. 10.

17 See Peter Edwards and David Goldsworthy (eds.), *Facing North: A Century of Australian Engagement with Asia*, Melbourne, (Melbourne University Press, 2003), pp. 216–257.

groups of states in a way that no alternative candidate or agency, real or proposed, has been able to do.<sup>18</sup>

3.32 The 2003 White Paper was prepared and finalised (for its release on 12 February 2003) at a sensitive time in the recent history of the UN. Resolution 1441 (on Iraq) had been adopted by unanimous Security Council vote on 8 November 2002 and discussions were subsequently pursued by the United States and the United Kingdom (with Australian support) to try to secure an additional Security Council resolution to authorise a decisive response to what was perceived to be the challenges posed by Iraq. Providing analytical comment on the UN's capacities and role at this time was clearly difficult. Nonetheless, it can be argued that the White Paper, by considering the United Nations, its capacities and limitations so briefly, does not provide adequate coverage of an important part of the context of Australia's foreign relations.

### **Trade: bilateral and multilateral approaches**

3.33 While the White Paper is focused heavily on security and political issues, it also devotes attention to Australia's trade policies and suggests some significant emphases and challenges. The Paper notes the benefits which economic reform and increased participation in trade have offered Australia. It is pointed out that the incomes of workers in firms which export (at an annual average of \$46 000) are markedly higher than for those that operate only in the domestic market (where the average is \$28 000).

3.34 The Paper advocates a 'whole of government' approach to the promotion of exports and sets a goal of doubling the number of exporting firms to 50 000 by the year 2006. This should deliver extra export revenue of an additional five per cent per year or \$40 billion over the target five year period. (pp. 65–66)

3.35 On the overall focus of trade policy, the Paper states that Australia has gained major benefits from progress in the global multilateral trade liberalisation process. It goes on to state that:

The emphasis of the Government will remain on multilateral trade liberalisation. But the Government's active pursuit of regional and, in particular, bilateral liberalisation will help set a high benchmark for the multilateral system. Liberalisation through these avenues can compete with and stimulate multilateral liberalisation. (p. 49)

3.36 Australia, the Paper states, will continue to emphasise pursuit of liberalisation through the Doha Round of negotiations of the World Trade Organisation which offer 'our best hope for major trade gains'. However, pursuit of these negotiations could be slow and involve factors over which Australia has little control.<sup>19</sup> Interest in other

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18 Mats Berdal, 'The UN Security Council: Ineffective but Indispensable', *Survival*, (vol. 45, no. 2, Summer 2003), p. 10.

19 A prescient remark given the collapse of the WTO talks in Cancun in September 2003.

economic groupings (including free trade agreements) is growing around the world. Accordingly:

The Government is determined to pursue pragmatically the advantages that free trade agreements offer Australia. Such agreements can deliver important market access gains faster than a multilateral round. They can also go deeper and further than the WTO. In our negotiations with Singapore, for example, we have secured a framework on services that is more liberalising than that in the WTO, and commitments on investment and competition policy that are only partly covered by WTO rules. Free trade agreements can fill out the multilateral framework of rules in such areas as trade facilitation, negotiating detail that is consistent with the letter and the spirit of WTO principles. (p. 58)

3.37 The recently concluded free trade agreement with Singapore involves significant trade benefits and ‘provides a first-rate template for liberalising arrangements with other countries’ (p. 61; the agreement was signed formally by the two governments on 28 July 2003). The Government has also begun negotiations with Thailand.

3.38 The major emphasis in this area of the White Paper, however, is in relation to the United States:

A free trade agreement with the United States is the Government’s highest bilateral trade priority. It would provide a formal arrangement where both countries could reach agreement on the key trade and related regulatory issues critical to expanding business and trade opportunities. Agreement on these would make it easier and less costly for business to operate between our two markets. An FTA in these terms could be used to establish new benchmarks in other trade forums, including the WTO and APEC. (p. 61)

3.39 The focus on bilateral free trade agreements is a potentially contentious area of debate, both in relation to overall trade policy and specifically in relation to the United States. Alan Wood (Economics Editor, *The Australian*) wrote just after the Paper’s release that:

...while Downer and Vaile claim their emphasis is still on multilateralism, they are extremely nervous the Doha round of multilateral trade negotiations under way in the World Trade Organisation will fail, and they want a fall back position in a free trade agreement with the US and any one else who wants to do one.<sup>20</sup>

3.40 The then Opposition shadow spokesperson on trade, Dr Craig Emerson, also criticised this aspect of the Paper, saying that the emphasis on bilateral negotiation was ‘taking Australian trade down a dangerous path’. He said the Government was

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20 Alan Wood, ‘Shifting ground puts multilateral trade on the block’, *The Australian*, 18 February 2003.

repeating the mistakes of the 1930s by looking for preferential trade deals rather than focusing on opening up global markets.<sup>21</sup>

3.41 Several aspects of the proposed free trade agreement with the US are currently under debate. One area of discussion is over the economic benefits to Australia which can be expected. The White Paper—drawing on research by the Centre for International Economics, Canberra—suggests that an Australia–US FTA could produce net economic welfare benefits of about \$A40 billion, shared almost equally between both countries, over a 20 year period. It could increase Australian exports by 0.8 per cent and imports by 0.4 per cent by 2006.

3.42 Other estimates of the economic impact of an agreement, however, using different modelling assumptions have suggested lower or even negative gains. The ACIL consultant group modelled the introduction of an FTA from 2006 to 2010 and found that it would cut GDP by about \$A100 million a year by 2010.<sup>22</sup> Doubts have also been expressed over the likely success of efforts by Australian agricultural exporters to gain substantial benefits through an agreement.

3.43 A further area of contention centres on whether pursuit of an FTA with the United States might have a detrimental impact on the multilateral trade negotiations framework overall and on Australia's relations with, and access to, major trading partners and markets in East Asia. The White Paper argues that pursuit of bilateral FTAs can have a 'positive sum' impact on trade overall and that 'bilateral liberalisation through these avenues can compete with and stimulate multilateralisation'. (p. 49) This view has been supported by other proponents of an agreement, such as Alan Oxley (Director of AUSTA, The Australian Business Group for Free Trade Agreement with the United States)<sup>23</sup> and US Special Trade Representative Robert Zoellick.<sup>24</sup>

3.44 Alan Oxley has argued that concerns about trade diversion away from East Asia under an Australia–US FTA are overdrawn and that modelling suggests that the amount of Australia–Asia trade diverted would be small: he cites figures of \$US80 million for China's exports and \$US70 million from the six ASEAN 'core economies'.<sup>25</sup> Oxley has written that:

It is in Australia's economic interests to encourage economic integration with markets in all major regions. One reason the Asian economic crisis did

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21 Tim Colebatch, 'Canberra seeks free trade deals', *The Age*, 13 March 2003.

22 Mark Davis, 'What price free trade?'; and Mark Davis, 'Out for the count on free trade', *Australian Financial Review*, 21 and 22 July 2003.

23 See Presentation by Alan Oxley, director of AUSTA, The Australian Business Group for Free Trade Agreement with the United States to a meeting of ABE [Australian Business Economists], Sheraton on the Park, Sydney, 27 February 2003.

24 Paul Kelly, 'US mission: zero tariffs', *The Weekend Australian*, 19–20 July 2003.

25 i.e. Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

not [have a significant] impact on Australia was the importance to Australia of trade and investment with the rest of the world.<sup>26</sup>

3.45 On the issue of whether bilateral FTAs are damaging the multilateral framework, Oxley has suggested that it is the problems of the multilateral system which have fuelled support for bilateral and regional FTAs:

Now that the WTO is so large and the range of issues covered is so wide, the process of liberalisation in the WTO is even more difficult and slow. In the Uruguay round it was not until about a decade after the negotiations began that countries started to enjoy the economic benefits of the agreements reached. Gains can be secured more swiftly through bilateral or regional agreements.<sup>27</sup>

3.46 Critics, however, contest these views. Professor Jagdish Bhagwati (Columbia University), a prominent economist and a leading opponent of bilateral and regional agreements, argues that the proliferation of different agreements between different combinations of countries creates an inefficient ‘spaghetti bowl’ effect. The criss-crossing obligations and requirements under these agreements impose a major administrative burden on government and business, with economic costs that reduce or outweigh the benefits of reducing trade barriers.<sup>28</sup>

3.47 Professor Ross Garnaut (Australian National University), in addition to questioning the extent of the likely net benefit to Australia, has suggested that:

The main cost to Australian–Asian economic relations of seeking to negotiate a free trade agreement with the United States, is that it enhances perceptions in Asia that Australia sees its interests mainly outside the region.<sup>29</sup>

3.48 An FTA with the US would, according to Professor Garnaut, amount to Australia practising ‘systematic trade discrimination’ against Asian economies, which account for a majority of Australia’s exports. He has suggested that it would be ‘naive in the extreme’ to think that Asian economies would not retaliate by reducing imports of Australian goods.<sup>30</sup> Trade diversion would put at risk the fruits of nearly two decades of negotiations and diplomacy which have increased access for Australian wool to China and for Australian beef to Korea and Japan.

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26 Available at <http://www.austa.net/publicForum/publicForum37.htm>

27 Oxley, A, quoted in Davis, M, ‘What price free trade?’, *Australian Financial Review*, 21 July 2003.

28 Bhagwati, J, and Panagariya, A, ‘Bilateral trade treaties are a sham’, *The Financial Times*, (London), 14 July 2003.

29 Garnaut, R, ‘An Australia–United States Free Trade Agreement’, *Australian Journal of International Affairs*, vol 56, no 1, April 2002, p. 135.

30 Garnaut, R, ‘An Australia–United States Free Trade Agreement’, *Australian Journal of International Affairs*, vol 56, no 1, April 2002, p. 136.

3.49 The increase in the value of Australian wool exports to China plus beef exports to Korea and Japan from the early 1980s to 2001, alone, substantially exceeds the *total* increase in exports of all goods and services to the US anticipated as a result of movement to comprehensive, clean bilateral free trade between Australia and the US.<sup>31</sup>

3.50 Furthermore, Garnaut has suggested:

...the agreement would be a significant new factor in the contemporary pressure for the unravelling of the open multilateral trading system and the reversion globally to pre-World War II patterns of bilateral and small group preferential arrangements ... Such an agreement would increase the risks of Australia being left outside preferential trade arrangements that include as members its major trading partners in East Asia.<sup>32</sup>

3.51 Garnaut has also expressed concern about an Australia-US FTA on security grounds. An agreement could introduce disputes over trade issues into the centre of the Australia-US relationship in a way which could impede or corrode the relationship overall:

...Australia's crucial security interest in building close and productive relations with its Asian neighbours, including its neighbours in Southeast Asia with large populations committed to the Islamic faith, would be more difficult in a world that was fractured into preferential trading arrangements, especially, but not only, if Australia and major East Asian neighbours were to be on different sides of the fracture. The recent prominence of terrorism in security concerns increases the importance of these relationships.<sup>33</sup>

3.52 These issues are likely to attract further debate as more details of the proposed Australia-US FTA emerge: bilateral negotiations were initiated in detail in talks in Canberra beginning on 18 March 2003 and a third round of talks began on 21 July, with more scheduled for October 2003.

3.53 The Senate Foreign Affairs, Defence and Trade References Committee, in addition to this Report on the White Paper, has been conducting an extensive inquiry into both the proposed Australia-US FTA and the General Agreement on Trade in Services. Its report will be presented to the parliament before the close of 2003.

## **The United States: unilateral versus multilateral policies**

3.54 The 2003 White Paper, as has been noted already, has not sought to assign explicit priority or rank to Australia's major international partners but it is clear in its estimation of the significance of the United States. It states that:

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31 Garnaut, R, 'An Australia-United States Free Trade Agreement', *Australian Journal of International Affairs*, vol 56, no 1, April 2002, p. 136.

32 Garnaut, R, 'Protectionism stalks free trade with US', *The Australian*, 4 March 2003.

33 Garnaut, R, 'Protectionism stalks free trade with US', *The Australian*, 4 March 2003.

Australia's longstanding partnership with the United States is of fundamental importance. The depth of security, economic and political ties that we have with the United States makes this a vital relationship. No other country can match the United States' global reach in international affairs. Further strengthening Australia's ability to influence and work with the United States is essential for advancing our national interests. (p. 86)

3.55 The Paper states that the US will remain the pre-eminent global power for the foreseeable future. Its military spending exceeds that of any other country by five times and its economy accounts for about one-third of global GDP. American culture, ideas, science and technology have global prominence.

3.56 It is clear that the reinforcement of Australia's longstanding alignment with US policies has much to do with both countries' involvement in the international campaign against terrorism. It over-rides any other security issues over which they might disagree, such as the Comprehensive Nuclear-Test-Ban Treaty and the strengthening of the Biological Weapons Convention.

3.57 The White Paper stresses Australia's resolve to 'fight terrorism with all available means'. (p. xi) The Paper declares also that 'we will seek to understand and deal with both its causes and its symptoms' but there is no indication of what those 'causes and symptoms' might be, nor what Australia will do to address them.

You get a horrendous act like what happened in Baghdad at the UN Headquarters or most particularly, of course, on September 11 in New York and during the Bali bombings. I think few American—or indeed Australian—leaders pause to try and analyse really why these things happen. I guess the issue, not addressed in the white paper at all, is that behind every terrorist act there are political, economic or social motives. I am not trying in any way to endorse the act of terrorism or indeed the cause of the terrorists, but I am saying that I think there needs to be a greater effort to address the underlying political, social and economic roots of terrorism. And they vary: they are not just political issues or religious issues; quite often they are intellectual issues. I think we sometimes forget that the pilots of the planes on September 11 were all university graduates. They were not acting out of poverty; they were acting out of, I guess, a longstanding political frustration.<sup>34</sup>

3.58 The Committee sought a response from the government about the issue of the causes of terrorism, and whether the government had resolved to take any specific action at that level.

From a government point of view and as a contributor to a white paper, we obviously haven't tried to make a definitive judgment on the causes of terrorism. ... There is a range of policy responses that can help reduce the attractiveness or the likelihood of terrorism. Even though I think arguably most terrorists do come from fairly prosperous middle-class families,

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34 Transcript of private briefing by Mr Richard Woolcott, AC, 21 August 2003, p. 4.

nevertheless, there is a good argument to be made for addressing not only poverty but also hopelessness which operates as a strong recruiting ground for terrorism. ... Addressing poverty is not exactly a simple thing to do, but one thing that you can do—it is what the government is trying to focus on—is try to address some of the failures in governance that give, let us say, young Indonesians a disgust of their own institutions and make them more amenable to a spurious alternative that is presented by terrorists.

... Personally, I think you could also argue that the economic reform and trade liberalisation are also going to be longer term contributors. Anything that promotes a more transparent, more honest global environment is gradually going to reduce the attractiveness of other options...

Don't forget the white paper is designed to give a picture of our international relations. Clearly the focus of those relations then, and to a considerable extent now, is in dealing with the immediate issue of identifying and deterring terrorist acts and of finding those who have perpetrated them and bringing them to justice. Those are the immediate concerns. Those are at the moment important features of our international relations.

I accept your points about there being wider longer term issues. I think the government would argue, however, that if you can actually improve intelligence, interception and punishment, you can make substantial inroads into the threat of terrorism. But you are quite right: there is a much wider range of policies that does have an effect on the environment that breeds terrorism, and I think those policies are described in the white paper.<sup>35</sup>

3.59 The thorough predominance of the US highlights the importance to Australia of the particular strategies on foreign policy and national security which the United States may decide to pursue. One highly relevant issue raised by the White Paper is the role of unilateral versus multilateral action in US foreign policy. In a carefully worded comment, the Paper states:

The United States has immense capacity to act unilaterally to protect its interests. It is reluctant to sacrifice the option of unilateral action entirely, but recognises that there are issues on which cooperation with others is worth pursuing and sometimes even necessary—in part because of international community expectations. Australia will often have strong interests in persuading the United States to work with others. US involvement in coalitions and international bodies is more likely to strengthen international action and produce more substantive and lasting outcomes. (pp. 87–88)

3.60 It must be pointed out, however, that the extent to which the United States has recently considered cooperation with others to be 'worth pursuing' has been a matter of controversy and disagreement. In particular, contention has arisen over the US's increased emphasis under the Bush Administration since 2001 on 'pre-emption' as a

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35 *Committee Hansard*, 21 August 2003, pp. 91–92 (DFAT)

strategy, and over its increased pursuit of unilateral approaches, which have sometimes not been in line with ‘international community expectations’.

3.61 The White Paper does not mention the concept of pre-emptive action in its discussion of US policies. However this issue has been under debate since the announcement by the Bush Administration that it would, if necessary, pursue such policies. In September 2002, the United States issued a new National Security Strategy, which elevated pre-emption to official US doctrine. The documents declared that:

To forestall hostile acts, by our adversaries, the United States will, if necessary, act pre-emptively ... The purpose of our actions will always be to eliminate a specific threat to the US or our allies and friends ... The reasons for our actions will be clear, the force measured, and the cause just.<sup>36</sup>

3.62 The way in which the US applies this strategic doctrine, it may be suggested, is likely to be of major importance to international affairs and to Australia in particular (given Australia’s close allied relationship with the US). In the aftermath of the September 11 attacks and other terrorist attacks such as the Bali bombing, the need to combat terrorism is widely recognised and accepted—and is endorsed strongly by the White Paper. However, the feasibility and utility of pre-emptive action in national security are controversial issues.

3.63 A recent study of the issue of pre-emption by Dr Robert S. Litwak (Woodrow Wilson International Center for Scholars, Washington DC) has argued that there have been few cases where pre-emption has been employed by a major power in the period since World War II.<sup>37</sup> His study of relevant cases (including the Israeli attack on the Osiraq nuclear facility in Iraq in 1981 and the US-instigated Operation Desert Fox in Iraq in 1998) suggests that the strategy is difficult to pursue and that the level of risks and costs may be high.

3.64 Litwak notes in relation to debates over Iraq and the issue of WMD that there has been sharp disagreement on how to weigh the ‘risk of inaction’ versus the ‘risk of action’. Litwak, writing before the onset of conflict in Iraq in March–April 2003, noted:

Supporters of US military action against Saddam Hussein assert that he poses a ‘clear and present danger’ and that the Iraqi WMD threat is imminent; opponents argue that the threat is not imminent, that Saddam

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36 *The National Security Strategy of the United States of America*, September 2002, quoted in Robert S Litwak, ‘The New Calculus of Pre-emption’, *Survival*, vol. 44, no. 4, Winter 2002–2003, pp. 58–59.

37 *The National Security Strategy of the United States of America*, September 2002, quoted in Robert S Litwak, ‘The New Calculus of Pre-emption’, *Survival*, vol. 44, no. 4, Winter 2002–2003, pp. 53–80.

Hussein is deterrable, and that comprehensive containment would succeed in keeping the Iraqi dictator ‘in his box’ as it has done since the Gulf war.<sup>38</sup>

3.65 The majority of the Committee agrees that pre-emption may in some circumstances be a viable policy approach and Iraq may prove to be a crucial initial test. (Australian Democrat Senator Ridgeway dissents from this view.) Pre-emption, however, is unlikely to be a viable option in situations where order is perceived to be challenged by a ‘rogue state’ but where the risks and costs of such action are unacceptably high. This is widely considered to be the case in relation to North Korea, where an attempt at pre-emptive attack might immediately result in war on the Korean peninsula, severe damage to South Korea, and the possible involvement of China and Japan.<sup>39</sup>

3.66 Prominent American commentators including former Secretary of State Dr Henry Kissinger have argued that pre-emption, moreover, could be a highly destabilising factor in international relations. If pre-emption is pursued by the US without a widespread international consensus on the particular dangers posed by a ‘rogue state’, especially about the likely intention to proliferate WMD and the imminence of the threat posed, then it may precipitate serious international discord and even opposition from allies of the United States.

3.67 Pre-emptive military action by the US may also set a dangerous precedent if the concept is taken up by other major powers, which might consider that they have a well-founded case for action to pre-empt future ‘hostile’ or ‘destabilising’ activities by neighbours.<sup>40</sup> Professor Stanley Hoffmann (Harvard University), writing in May 2003, observed that:

Those who approved the war in Iraq for entirely understandable reasons of humanitarianism, of pity for the Iraqi people, and of horror at Saddam Hussein’s regime seldom considered that a precedent used for a ‘good’ cause can easily be used by others for causes they would object to: Russia could use it against Georgia, India against Pakistan, North Korea against South Korea.<sup>41</sup>

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38 *The National Security Strategy of the United States of America*, September 2002, quoted in Robert S Litwak, ‘The New Calculus of Pre-emption’, *Survival*, vol. 44, no. 4, Winter 2002–2003, pp. 73.

39 *The National Security Strategy of the United States of America*, September 2002, quoted in Robert S Litwak, ‘The New Calculus of Pre-emption’, *Survival*, vol. 44, no. 4, Winter 2002–2003, pp. 64–65; Walter B Slocombe, ‘Force, Pre-emption and legitimacy’, *Survival*, vol. 34, no. 1, Spring 2003, pp. 126–128.

40 Henry Kissinger, ‘America risks much with revolutionary principle’, *The Courier-Mail*, 8 August 2002; Joseph S Nye, ‘Before war’, *The Washington Post*, 14 March 2003.

41 Stanley Hoffmann, ‘America Goes Backwards’, *New York Review of Books*, 12 June 2003.

### **The United States, unilateralism and major power relations**

3.68 The issue of pre-emption relates to the wider question of the extent to which the United States may pursue unilateral or multilateral policy approaches. The White Paper, at the beginning of Chapter Two ('The international environment: challenges and responses'), states that alignments among the world's nation states still define the basis of Australia's strategic environment and that 'relations between the major powers are now more stable than they have been for many years'. (p. 16)

3.69 This comment may have been a valid observation about major power relations in the first year after the September 11 2001 attacks but it seems less appropriate now (in late 2003). The Bush Administration since coming to office in 2001 has explicitly sought to pursue a more assertive stance in foreign and security policy. While emphasising the value of alliances, it has also reserved for the US the right to review—and if thought necessary, to withdraw from—a number of multilateral commitments.

3.70 This willingness has seen the Administration reject the Kyoto agreement on international climate issues, withdraw from the 1972 Anti Ballistic Missile Treaty (originally signed with the Soviet Union) and refuse to accept the jurisdiction of the International Criminal Court.

3.71 In the immediate aftermath of the Iraq conflict and the defeat of the Saddam Hussein regime, the US has moved to renew efforts to facilitate a settlement of the Israel–Palestine conflict and President Bush made a personal contribution by participating in talks in early June. President Bush and his Administration have also moved to renew dialogue with key allies and associates, to ease relations strained in the lead-up to the conflict.

3.72 However, reservations remain about the Administration's unilateralist tendency, especially in Germany and France. *The Economist* went so far as to say in early June 2003 that, 'Since September 11, the foreign policy of almost every other country has been driven by reaction to America's willingness to project its power unilaterally'.<sup>42</sup>

3.73 One focus of concern about unilateralist tendencies in US policies and the attendant tensions between the US and some of the major powers has been that these tensions might impact adversely on international economic relations. The prospects for success of the Doha Round of trade negotiations sponsored by the WTO will depend in part on the willingness of major participants (including the US and the members of the European Union) to achieve agreement on concessions, which

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42 'Putting the world back together again', *The Economist*, 7 June 2003.

ultimately need a climate of trust and cooperation. Ongoing major power tensions, it has been suggested, could make this process more difficult to pursue successfully.<sup>43</sup>

3.74 A second issue is that there may be significant limits on the extent to which unilateralist action can in fact help achieve some key foreign policy goals of both the US and its allies. The problem of proliferation of weapons of mass destruction is important in this context. Much of the emphasis of the Bush Administration in this area has been directed towards countries such as Iraq, Iran and North Korea—which President Bush in his State of the Union address in January 2002 characterised as constituting an ‘axis of evil’. However, as Ivo Daalder and James Lindsay (Brookings Institution) have argued in a detailed analysis of recent US foreign policy:

...the problem of weapons of mass destruction goes well beyond rogue states. Globalisation has dispersed technology around the globe and with it the knowledge of how to build weapons of mass destruction. Many chemicals and biological pathogens have beneficial as well as harmful uses, so they can be openly acquired. The vast weapons hangover from the cold war—including the many thousands of tons of fissile material, chemical agents, and biological toxins stored across Russia, mostly with inadequate security and vulnerable to theft or diversion—compounds the problem. Changing the leadership of rogue countries provides no solution to these challenges.<sup>44</sup>

3.75 Multilateral cooperation is one of the primary requirements if efforts to combat these problems of proliferation are to have prospects for success, and the Bush Administration does support such efforts. However, Daalder and Lindsay comment that:

The Bush Administration argues that international cooperation on terrorism, proliferation and other crucial matters will be forthcoming even if the United States rides roughshod over the views of others. Countries act in their self-interest, and it serves everybody’s interest to cooperate in the war against terrorism. But what if this calculation is wrong? Arrogance, George Bush warned during the presidential campaign, breeds resentment of the United States.<sup>45</sup>

3.76 In an analysis of US foreign policy after Iraq, Professor Joseph Nye (Harvard University) observed that:

No large country can afford to be purely multilateralist, and sometimes the United States must take the lead by itself, as it did in Afghanistan... But the

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43 Elizabeth Becker, ‘WTO fears Bush go-it-alone role’, *International Herald Tribune*, 15 March 2003; ‘United States: WTO suffers from new security agenda’, *Oxford Analytica*, 15 July 2003.

44 Ivo H Daalder and James M Lindsay, *The Bush Revolution: The Remaking of America's Foreign Policy*, (Washington DC, The Brookings Institution, May 2003), p. 47.

45 Ivo H Daalder and James M Lindsay, *The Bush Revolution: The Remaking of America's Foreign Policy*, (Washington DC, The Brookings Institution, May 2003), p. 47. *ibid.*

United States should incline towards multilateralism wherever possible as a way to legitimise its power and to gain broad acceptance of its new strategy. Pre-emption that is legitimised by multilateral sanctions is far less costly and sets a far less dangerous precedent than the United States asserting that it alone can act as judge, jury and executioner. Granted, multilateralism can be used by smaller states to restrict American freedom of action, but this downside does not detract from its overall usefulness.<sup>46</sup>

3.77 The interactions between the US and some major allies in late 2002 and early 2003 suggest that there can be considerable tensions among major powers arising from perceptions that the United States is now prepared to accept major strains in some traditional relationships in the course of pursuing its declared policy objectives.<sup>47</sup>

3.78 If tension between the US and major allies places pressure and strain on the operations and effectiveness of major international institutions such as the UN and the WTO, there are potentially important and adverse implications for a ‘middle power’ such as Australia, which has significant interests in the effectiveness of these institutions. Paul Kelly (Editor at Large, *The Australian*) recently commented that:

Australia... does not want an America so imprisoned by the search for consensus that it is paralysed from taking military action. But neither does it want an America that is walking away from global institutions rather than labouring to work within them... If America should ever decide that the global institutions and rules of the post World War II period have little value to its needs as a hegemon, it would be disastrous for middle powers such as Australia.<sup>48</sup>

3.79 At the time of this Committee’s Report, it was not yet clear how the Iraq issue would affect, in the near and medium term future, US foreign policy and unilateral tendencies in it. One significant issue is that the US faces substantial economic costs in maintaining occupying forces in Iraq and in contributing to the reconstruction of the country. These costs are arising at a time when the US now has both a current account deficit and a large and growing budget deficit, estimated in mid July 2003 at \$US 455 billion (4.2 percent of GDP). Concerns have been expressed that this combination of factors may inhibit US economic performance and stability.<sup>49</sup>

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46 Joseph S Nye, ‘U.S. power and strategy after Iraq’, *Foreign Affairs*, (July–August 2003), p. 69.

47 Peter Hartcher, ‘Bull on the loose—never mind the china’, *Australian Financial Review*, 21 March 2003.

48 Paul Kelly, ‘What is ANZUS for?’, *The Diplomat*, (June–July 2003), p. 29.

49 The budget was in surplus at a level of \$US 237 billion in fiscal year 2001 and in April 2001, the Bush administration forecast a surplus of \$US 334 billion in 2003. Since then, the budget situation has deteriorated because of slower economic growth, higher spending on defence and domestic security and tax cuts. The net effect has been that the budget situation has deteriorated by \$US 780 billion in two years—see David E Rosenbaum, ‘White House sees a \$455 billion gap in ‘03 Budget’, *New York Times*, 16 July 2003. See also Paul Kelly, ‘Power

3.80 A second relevant issue is that it is still an open question as to how much the overthrow of the Saddam Hussein regime has contributed to the containment of the spread of weapons of mass destruction, and especially of nuclear weapons. The United States and its allies now face the difficult challenges posed by the emerging nuclear programs in North Korea and Iran. Professor David Calleo (Johns Hopkins University, Washington DC) has suggested that one problem in relation to those two countries is that, ‘Relatively weak countries, targeted as rogue states and repeatedly threatened with military attack, are naturally desperate to achieve the deterrence that only weapons of mass destruction can provide’.<sup>50</sup>

3.81 In relation to an immediately serious international security issue, the problem of North Korea and its nuclear and missile programs, the US has not so far pursued a unilateral strategy but has been approaching the issue in consultation with allies and other interested states.

3.82 The US has initiated and participated in multilateral discussions on possible interdiction of exports from ‘rogue states’ of drugs, missiles and potentially nuclear materials (the Proliferation Security Initiative, the second meeting of which was hosted by Australia in early July 2003), which included eleven countries – among them, France and Germany.

3.83 The US has also welcomed China’s involvement in diplomacy aimed at a peaceful resolution of the issue. The outcome of these efforts will be highly important both for international security prospects and for the direction of US foreign policy.<sup>51</sup>

3.84 The White Paper, in a comment on US foreign policy (already quoted) states that ‘Australia will often have strong interests in persuading the United States to work with others. US involvement in coalitions and international bodies is more likely to strengthen international action and produce more substantive and lasting outcomes’. (p. 88) Developments in 2003 suggest that these issues are indeed highly important for Australian foreign policy. The relevance of these issues to Australia suggests that they merit continuing consideration and discussion as the world moves through the immediate aftermath of the Iraq conflict.

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pact’, *The Weekend Australian*, 26–27 July 2003 and Richard Rosecrance, ‘Croesus and Caesar: the essential Trans–Atlantic symbiosis’, *The National Interest*, Summer 2003.

50 David P Calleo, ‘Power, Wealth and Wisdom: The United States and Europe after Iraq’, *The National Interest*, Summer 2003.

51 Peter Hartcher, ‘Bush has more crisis than is good for him’, *Australian Financial Review*, 11 July 2003; ‘North Korea: Talks to resume but crisis deepens’, *Oxford Analytica*, 23 July 2003.

