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Round”**

**Andrew F. Cooper and
Richard Higgott**

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**TWO-LEVEL GAMES AND THE POLITICAL ECONOMY OF ADJUSTMENT: COMPARING
AUSTRALIAN AND CANADIAN APPROACHES TOWARDS THE CAIRNS GROUP
AND AGRICULTURAL TRADE IN THE URUGUAY ROUND**

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The emergence of the Cairns Group, and its role in the Uruguay Trade Round, is of some considerable interest for students in international relations in general and students of international political economy in particular. As we have argued elsewhere, the group's development has added a new dimension to the process of bargaining in the multilateral trade negotiations (MTNs) under the auspices of the GATT.¹ While the 'pyramidal' model of decision-making in the GATT negotiations still largely pertains,² neither the consensus agreement for a new Round of negotiations that emanated from the 1986 Punta del Este meeting nor the progression of the Uruguay Round beyond the mid-point of the Geneva meeting of April 1989 can be explained simply in terms of the brute power of the major actors -- the United States and the European Community (EC) -- alone. Progress in the agenda setting and in the negotiating process, it may be argued, has been significantly facilitated by the activities of the Cairns Group as a constructive bridge builder and consensus seeker in the tense and often conflictual relationship not only between the major actors, but also between the major actors and some of the secondary actors with a high stake in the agricultural negotiations.

Yet, at the same time, it must be emphasized that the activities of the Cairns group have been constrained by the surfacing of intense tensions within this grouping of 'fair trading nations'. Although the group's members have common objectives with respect to their attempts to reform global agricultural trade, they have continued to have different priorities. To a certain extent, this pressure on unity resulted from the 'mixed' nature of the coalition. By its heterogeneity, the

Cairns group may be regarded as a coalition unlike any other in the contemporary international political economy. Members are, in simple terms, from both sides of the North-South divide in the international order. Prominent within the group are Australia and Canada, two countries which have traditionally shared a number of common values and goals in the international system. Australia, and Canada, however, have not only been joined by New Zealand, another 'like-minded' country, but by a variety of 'unlike' countries, namely Brazil, Hungary, Indonesia, Argentina, Chile, Colombia, Fiji, Malaysia, the Philippines, Thailand, and Uruguay.³

The LDCs within the Cairns Group differ considerably with regard to their comparative level of economic development and political systems. Nevertheless, their sensitivity concerning Third World, or G77, solidarity has influenced their behaviour.⁴ While going along with the initiative, most were reluctant to identify themselves too closely or explicitly with a cross-cutting coalition of developed and developing countries. Their overriding concern was 'special and differential' treatment for their agricultural economies. Some, such as Brazil (a member of the hard-line G 10) and Argentina, went much further in their demands, impelled as they were to come up with funds needed to cope with their enormous debt problems. For sure, Argentina showed considerably more concern for group unity than Brazil, which on several occasions failed to keep other members of the Group informed of its activities in terms of agricultural policy. But Argentina also led the other Latin American countries in their 'revolt' at the December 1988 Montreal midterm review meeting, a response which featured a collective threat to block progress in eleven of the other fourteen areas of negotiation in the Round if there was no progress in agriculture.⁵

From the perspective of group unity, however, it was the tensions between Australia and Canada rather than the divisions between the developed and developing countries which caused the most problems. Although both are quintessential middlepowers, and remain like-minded in

the sense that they are strong advocates of multilateralism and a rules-based approach to international economic relations, the two countries diverged considerably in the context of the Uruguay Round with respect to their approaches to the Cairns Group and agricultural trade. Whereas Australia increasingly took on the intellectual leadership and managerial responsibilities for the Group, a perceptual gap grew between Canadian rhetoric and Canadian practice. Canadian policy-makers persisted in talking about Canadian leadership within the Group. The Minister of State for the Canadian Wheat Board, for instance, claimed that 'we have been taking the lead internationally in seeking a lasting solution to these problems.'⁶ Yet, because of Canada's apparent unwillingness to accept the burden of costs for the international campaign the country was increasingly viewed as a backslider within the group.

In this pattern of behaviour, Australia and Canada reversed their traditional roles with respect to middlepower leadership. It has been Canada that has usually been in front with respect to the thinking and practice of middle powers. One student of Canadian and Australian diplomacy has described the role of the two countries in the post-1945 era, 'Canada appeared to lead the way in directions along the way which Australia has moved.'⁷ This source of leadership was particularly evident in the abilities of Canadian officials during the golden age of Canadian diplomacy (late 1940s to late 1950s) to assemble coalitions and to work with other countries in the implementation of proposals. In conceptual terms the notion of middlepower statecraft was developed in Canada, most notably by the late doyen of Canadian foreign policy studies, John Holmes, to signify *an approach to diplomacy* geared towards mitigating conflict and building consensus and cooperation.⁸

To understand this transformation of national approaches it is necessary to adopt both an international and domestic level analysis. At the international level, the structural and situational contexts of Australian and Canadian foreign economic behaviour must be examined. That is to

say, Australia and Canada must be 'located' in a changing international political economy. At the domestic level, the differentiated degree of state capability and the nature of state/societal relations within the two countries must be taken into account. This set of features provides both the constraints and opportunities that condition national economic performance. A useful means for exploring this dynamic is Putnam's conceptualization of two-level games.⁹ In examining the nexus between the international system and the domestic political process through this mode of analysis, the relationship between foreign economic diplomacy and domestic reform strategy may be captured.

Setting the Context of International Agricultural Trade Politics

While it is neither necessary nor possible to rehearse all the detail here, a prerequisite to such enquiry must be an acknowledgement of the change in the international political economy that has been in train over the last couple of decades and the manner of the impact of this change on Australia and Canada in the 1970s, 1980s and early 1990s. In caricature, the essence of this change centres on the uncertainty and increased economic conflict that has been deemed to have accompanied the erosion of the Liberal International Economic Order (LIEO).¹⁰ In this regard, perhaps only three general points need to be made. First, the post-1970 period has witnessed a serious weakening in the principles and norms that were established at Bretton Woods and the articles of the GATT that formed the basis of the post-World War II LIEO.

Second, the chief characteristic of change in the international economic order has been the shift from hegemony to multipolarity. This is not to say that American preponderance has been supplanted, nor that we have a system of advanced multilateral management of the global economy. Rather, the United States has been joined by other major -- although still lesser -- economic powers such as Japan and the EC, and this has complicated the power-sharing

arrangements in the international political economy, the governance of which is no longer possible under the principles established in the second half of the 1940s.¹¹ It is, of course, possible to present empirical evidence that there has been no measurable decrease in the ratio of trade to gross national product,¹² and that, by logical extension, the real impact of non-tariff barriers is in fact limited. The point of concern for us, however, is the degree to which perceptions both of a major shift from an earlier liberal ethos and of the pervasiveness of non-tariff barriers are having a deleterious effect on the wider commitment to liberalism in many quarters of the global system.

Third, a major victim of these broad changes in the international economic order would appear to be the more specific principles and norms that are enshrined in the GATT and have guided the international trading system until the 1970s: multilateralism, nondiscrimination, and a legal or codified approach to regulation, rather than a negotiated approach preserving the sovereign administrative discretion of states. The codified approach represented a preferred American position to that of its European allies in the post-World War II decades.¹³ These principles and norms, however, came under increasing pressure in the 1970s and 1980s. Not only has the rise to major actor status of the EC and Japan undermined the US ability to set the politico-philosophical agenda, but it would appear that there is no longer the same *belief* in the United States that the principles that served it well as hegemon still serve the national interest in the way they once did.¹⁴ In recent years, the major debate within policy-making communities concerning the international trading system has been driven much more by the ideological-cum-philosophical questions about the relative merits of liberalism and mercantilism. While the GATT has been successful in lowering tariffs, it has been unable to discourage the use of non-tariff instruments, which have become a major reflection of 'illiberality' in the trading system.¹⁵ With the emergence of the new protectionism,¹⁶ a panoply of government-sponsored measures described variously as strategic trade policy or industry policy have become the norm, and the

control of these measures can only be brought about by complex political processes of decision-making.

It is in this broad context of change that the politics of agriculture have to be understood. In the immediate post-1945 period, the United States was the dominant actor in the international agricultural trading system. By virtue of its willingness to take on the burdens of stockholder of last resort in grains, in respect to concessional transactions, the United States may be said to have performed the role of the manager of the international agricultural trading system. Indeed, the norms and rules of the post-1945 food regime reflected the liberal economic values championed (although not always practised) by the United States, values which included comparative advantage, specialization, and the free and open exchange of goods and technology.¹⁷ Under such conditions, US policymakers argued that economic growth and economic efficiency would be maximized on a global level. As suggested, however, to make such an assertion is not to deny a history of protectionism in early post-World War II US agricultural policy which in part explains the weakness of GATT on the issue of agriculture. After all, within the first few years of GATT's existence, it was the United States which secured the still extant 'temporary waiver,' of certain quantitative export restrictions that conflicted with the interests of its own agricultural markets.¹⁸ The issue of US protectionism remained one of degree rather than substance.

The tensions found in the international relations of agricultural trade in the 1980s and 1990s reflects, and even showcases, many of the general trends found in the IPE. The most dynamic change in this issue-area has been the ascendant position of the European Community (EC), and other actors in the international system. Stimulated by the food 'shocks' of the early 1970s, the EC moved from being a net-importer of agricultural goods to a position where its production exceeded self-sufficiency in a wide range of goods. The result was a gradual

globalization of the CAP, as the surpluses generated internally have been exported outside of the EC through a generous 'restitution' scheme. The impact of this challenge from below was felt in a variety of ways. In terms of declaratory statements, there continued to be fundamental differences between the weight placed by the US on open markets and the EC's emphasis on 'sovereignty' and the 'management' of international transactions. At the level of action, the EC's increasingly assertive export approach prompted countermeasures from the US. During the Carter administration and the early years of the Reagan administration, this response centred on a concerted attempt to win recourse through a revamped subsidy code of international trade under the GATT. Dissatisfaction with the slow pace involved in changing the formal rules governing export subsidies (symbolized by the failure of the November 1982 GATT Ministerial to achieve agreement), though, shifted American agricultural diplomacy towards a more aggressive tit-for-tat approach highlighted by the introduction of the Export Enhancement Program (EEP) and other retaliatory measures.¹⁹ By this shift in approach, from residual multilateralism towards a more explicit form of unilateralism, the US signalled to its followers as well as the challengers in the agricultural trade issue that it placed its own interests ahead of the defence of the liberal international trading order.²⁰

Contrasting Australian and Canadian Approaches to the Cairns Group

The erosion of the post-1945 global agricultural system and the heightened fragmentation in the global relations of agricultural trade were extremely traumatic events for Australia and Canada. As important as the role of the United States was as leader of the post-1945 agricultural trade system, an exclusively leader-centric analysis overlooks the integral role of these two first followers in institutionalizing and legitimizing that system.²¹ Although accepting the American vision in terms of norms and values, Australia and Canada were not mere free riders to a

hegemon distributing 'international public goods'. While free riding has existed, both consciously and unconsciously, among such secondary actors as Australia and Canada, not all of their behaviour can be termed free riding. On the contrary, central to Australian and Canadian followership was a form of burden-sharing within the agricultural trading system. If these countries may be said to have been riding along to the extent they were not (given the structural limitations of the influence) in a position to maintain an open trading system by themselves, they did so only after buying a ticket to ride.

One major focus of this activity was the stabilization of international commodity markets in which Australia and Canada were significant actors. Both countries, for example, worked hard to bring the International Grains Agreement (IGA) into effect in the late 1960s and to ensure its survival in the face of defection by other actors. A second focus of this form of followership was the routinization and/or extension of the benefits of the system to a larger circle of countries. Much of this type of activity was directed at ameliorating conditions in developing countries during crisis situations, such as the devastating Indian drought in the mid-1960s, by way of food aid and other forms of relief. A third focus was the diplomacy of constraint, whereby departures from the norms by other actors were monitored and publicized. Particular attention was paid in this regard to those actors, such as the EC, less wedded to the norms of the free market. Nevertheless, as suggested, this rules-keeping activity was not confined to what may be termed the potential 'spoilors' of the system.²² This aspect of Australian and Canadian diplomacy was directed at the system leader as well. Initially, the main target of this criticism was the American demand (and receipt) of the waiver from GATT obligations, allowing it to restrict the import of agricultural products under section 22 of the US Agricultural Adjustment Act. Later on, though, the focus of the criticism shifted onto the American practices of disposing their surplus agricultural products through a variety of practices which were well beyond the 'qualified' means of extra-market food

distribution acceptable within the agricultural trade system.

The breakdown of the rules of the game experienced in the 1980s forced a re-thinking of this type of traditional behaviour on the part of the first followers. Economically, Australia and Canada found themselves increasingly caught in the crossfire of the 'ploughshares war' between the US and the EC.²³ The danger of this situation for third parties was demonstrated most clearly by the Reagan administration's decision in mid-1986 to negotiate sales of subsidized wheat to the Soviet Union. Diplomatically, the influence of both of these traditional middle powers appeared to be waning vis-a-vis the larger players with which it had important but asymmetrical relationships. This vulnerability was more apparent in the case of Australia because of 'outsider' status in terms of fora such as the G-7, the Quadilaterals and other exclusive fora. By way of contrast, Canada's position was cushioned somewhat by both its comparatively high international status and its varied institutional links with the US and the EC. Yet, even with this set of advantages, Canada found it increasingly hard to rein in the unilateral behaviour of the majors and establish a re-ordered set of rules in the trading system. Various Canadian attempts to work out a new international grains arrangement in the late 1970s and early 1980s, for example, achieved little in the face of resistance by the Americans and the Europeans.

Certainly this new set of circumstances provided much of the stimulus towards co-operative behaviour. In the pre-negotiating stage of the Uruguay Round Australia effectively used the escalating nature of the trade situation to transform the issue of agriculture to a high-level political question. Specifically, the Australian policymakers used the US decision to globalize the EEP as a catalyst for moving ahead with building a larger coalition of 'non-subsidizing' agriculture-exporting nations in the four quadrants of the world, all of which were hard hit by the US actions. Moving beyond the stage of informal discussions on the subject, Australia took the crucial step of formally initiating the 'creation of a group ... with common interests ... for the long-term' by

inviting ministerial representatives of fourteen carefully selected countries to a meeting at Cairns, Queensland, in the last week of August 1986.²⁴ Justifying this step, the Australians argued that the external environment had become so threatening that it was only through the development of a 'co-ordinated approach to such impositions' that these targeted middle and smaller actors might prevent 'our shared interests and concerns' from being 'bypassed'.²⁵

In embarking on this ambitious exercise in coalitional diplomacy, Australia not only tried to build new associative ties with agricultural exporting countries in the developing world, but also tried to consolidate a new sense of mutuality of interest on agricultural issues with like-minded nations. As noted, the most important country in the latter category was Canada. Although much of Australia's and Canada's followership had been conducted in a parallel rather than in tandem fashion, co-operative efforts for a 'joint defence' against the unilateralist activity of the majors had intensified in the early 1980s.²⁶ It is worth noting in this context that moves in this direction were buttressed by the close relationship established between Prime Ministers Hawke and Mulroney. Hawke, for example, was an observer at Mulroney's January 1985 Economic Summit in Ottawa. Hawke and Mulroney were also in telephone contact during the US-USSR subsidized wheat sale episode.

To some considerable degree, Australia's efforts to bring Canada on-side were successful. Canada not only 'signed on' to the group, but Canada hosted a follow-up ministerial meeting of the coalition in Ottawa in 1987. The Canadian ministerial delegate at the original Cairns meeting was a relatively junior minister, the Minister of State for the Canadian Wheat Board. As the Group showed it had some considerable staying-power, the task of representing Canada passed over to the Minister of International Trade (first Pat Carney and then John Crosbie). At the same time, Canada presented the Cairns Group position at the G-7 meeting in Venice (1987) and Toronto (1988) and the quadrilateral meetings.

Yet, as the Cairns Group developed, the differences between the Australian and Canadian role came to the fore. Not only did Australia act as the driving force behind the formation of the Group, it also served as the manager of the Group. Internally, Australia focused on institution-building via the establishment of a division of labour, the development of monitoring activity, and the establishment of a loose form of co-ordinating mechanism to help maintain the cohesion of the coalition. A crucial component here was the activity of a small group of public officials such as Geoff Millter (The Secretary of the Department of Primary Industry), Peter Field (Department of Foreign Affairs), Andy Stoeckel (Bureau of Agricultural Economics); and Alan Oxley, (Ambassador to the GATT). Externally, with respect to the negotiation process with the US, the EC and other actors, Australia was instrumental in shaping the incremental step-by-step approach of the Cairns Group. The key to this approach, in broad terms, was the adoption of confidence-building techniques which would clear the air of animosity, convince all actors of the usefulness of the negotiations, and gain a collective commitment to a 'standstill and rollback.' At the Bariloche meeting of the Cairns Group in February 1988, Australia called for a freeze on all farm subsidies and new import barriers to commence in 1989 as part of a 'downpayment' or 'advance' on a longer-term agreement on agriculture. At a meeting of trade ministers in Islamabad, Pakistan in October 1988, Australia, on behalf of the Cairns Group, called for a reduction of import barriers and agricultural price supports by 10 percent for two years. By July 1989, in what was expected to be the lead-up to the final stage of the negotiations, Australia was calling for complete elimination of quantitative restrictions as part of a longer-term package.

To show its own *bona fides* on trade reform, Australia expressed a new willingness to accelerate its own internal adjustment process. Rejecting protectionism at home as well as abroad, the Hawke government committed itself to exposing more fully the Australian economy to the forces of the international marketplace. A significant manifestation of this shift in attitude

came in Prime Minister Hawke's October 1987 speech to the contracting parties of the GATT at Geneva, in which he promised that Australia was prepared to eliminate all of its restrictive barriers as part of a radical step towards trade liberalization. Intellectual support for this internal reform drive was provided by a number of well-publicised studies/publications, including the Garnault Report (1989), the Hughes Report on Australian export performance (1989), and the Pappas, Carter, Evans and Koop report prepared for the Australian Manufacturing Council (1989). All of these studies reached similar conclusions about the necessity of internal adjustment in the Australian economy, and helped push the Australian public policy agenda towards a neo-liberal agenda centred on deregulation and competitiveness.²⁷

In contrast to Australia's ambitious exercise in entrepreneurial technical leadership in the agricultural trade issue-area, Canada's approach to the Cairns Group was more ambivalent. If Australia was the motor for the Group, Canada was the most substantial brake. The Canadian preference was to use the Cairns Group as a tactical rather than a strategic tool. By signing on to the group, Canada hoped to embellish its wider multilateral diplomacy in regard to the GATT negotiations, as well as its bilateral negotiations via the FTA, not to mesh its own approach on agricultural policy to those of its coalition partners.

The transformation of the Cairns Group from a loose assembly of 'fair-trading' nations fighting exporting subsidies to an institutionalized coalition with a broad range of interests, therefore, posed serious problems in terms of Australian-Canadian relations. As the Cairns Group moved from a gambit, taken in the midst of a crisis, into an emergent third force in agricultural trade negotiations, the differences between Australia and Canada came to the fore. What had begun as a relatively minor endeavour blossomed into a serious exercise, pushed along by a gung-ho Australia and pulled back by a reluctant Canada. From the Australian standpoint, Canada was increasingly viewed as a country having a position in but not sharing the approach

of the Group. From the Canadian standpoint, the ambit nature of the Australian proposals and the wide definition of a freeze on farm subsidies, signified an unwarranted intrusion into the sphere of domestic agricultural policy.

An open rift between Canada and Australia originally appeared in 1988 about how the freeze was to be implemented. Although the subject of a great deal of crisis-management diplomacy, the differences remained so fundamental that Canada refused to sign the submission of the Cairns Group to a GATT agricultural committee meeting in July 1988.²⁸ Canada, while willing to agree to a freeze on further trade distorting initiatives and prepared to accept an overall reduction of 10 percent over the next two years, remained adamantly opposed to any commodity-specific measures. Moreover, far from contracting as the GATT negotiations moved on, the gap in the negotiating stances of the two countries widened. While Australia was willing to put everything it had on the table, Canada remained defensive about its own agricultural structures - which it considered to be non-trade distorting -- and in particular wanting due allowance under Article XI for import quotas in support of supply management programs.²⁹ So intransigent was Canada's position on this issue that it preferred to jeopardise its role in the coalition rather than give ground in policy-terms. Agriculture Minister and Deputy Prime Minister, Donald Mazankowski, for example, defended Canada's stance on the basis of sovereignty: 'What's wrong with staking out a Canadian position ... We should be applauded for that.' [footnote 29 would then go here] This sense of divergence, even to the point of rupture, between Canada and the other members of the Cairns Group was reinforced in turn by autonomous Canadian diplomatic efforts to defend the marketing board system from sweeping reform. Most notably, Canada has sought the help of Japan and Korea to exempt supply management from any agreement based on tariffication.³⁰

Comparing National Approaches In Terms of Two-Level Games

To a large extent, the differences between the Australian and Canadian approaches to the Cairns Group may be usefully analysed from a structural perspective.³¹ When the position of Australian and Canadian agriculture in the international political economy is looked at specifically, the exposure of Canada to trade tensions is seen to be far less marked than that of Australia. The profile of Canadian farm exports is a concentrated one, with grains, oilseeds, and red meats, dominating in the competitive sector, and with dairy and poultry producers remaining relatively uncompetitive and domestic-oriented sectors. If a victim of the 'ploughshares wars,' then, Canada was a victim with quite specific grievances. At the same time, in relative terms, Canada is in a far stronger overall position economically than Australia. Not only does Canada have a higher GNP than Australia, but by Australian standards, Canada has a well-developed base in manufacturing and service industries.³² Although the agricultural trade issue is still important for Canada, with farm products contributing only 7 percent to Canada's total exports, it is not the pivotal issue in terms of trade diplomacy.

The Australian position was very different. Not only has Australia remained more dependent on its export of resources, but its vulnerability to the denial of market access and to the competitive subsidization of agricultural commodities is far greater, given the wide range of agricultural produce it exports (rice and sugar as well as grains, dairy produce and meat). Indeed, for the so-called Lucky Country, the 1980s were a sober period because agricultural prices fell and Australia no longer had the cushion of strong mineral and energy exports. From 1973 to 1983, Australia slipped from being the twelfth largest trading nation to being the twenty-second largest in the international economy, and its share of the world export market dropped from 2.6 percent to 1.2 percent.³³ This downturn was starkly reflected in the rise in capital debt, the fall in the currency level and the increase in the balance-of-payment deficit on the current

account. Australia has, in short, undergone a process of 'marginalization' in the post-World War II global economy.³⁴

The Labor government of Bob Hawke, however, not only had an economic imperative for 'doing something' about the agricultural trade situation, but it had a domestic imperative for action which related specifically to the rapidly escalating 'rural crisis'. Mobilized by the worsening rural terms of trade, reflecting both a rise in production costs and the deterioration in world prices, the 'revolt of the bush' had become a serious political force in Australia by the mid-1980s. From one perspective, this form of rural agitation was merely an irritant to a consensus oriented government. From another perspective, though, the farmers' actions were perceived as being potentially highly damaging to the government in electoral terms. Although the ALP had traditionally received a minority of the votes cast in rural Australia, Labor could not afford to ignore the countryside completely. As the Minister of Primary Industry, John Kerin, put it in a speech in November 1985, the number of marginal seats located in the countryside was too great: 'Eighteen of our federal seats have a significant rural component. Nine of our most marginal seats are included on this list. We cannot hold government without these seats.'³⁵

The priority given by the Australian Labor Party to the agricultural trade issue in the 1980s and 1990s, then, may be best analysed as a two-level game.³⁶ Given its longstanding commitment to multilateralism, GATT (despite all of its problems) was and still is deemed by Australian foreign economic policymakers to offer Australia the best hope for global trade reform in general, and agricultural reform in particular. Consequently, the Uruguay Round of multilateral trade negotiations has been at the apex of Australia's foreign policy agenda since the Round's commencement in 1986. This international priority was, however, part of an attempt on the part of Labor, to manage -- by externalising -- the domestic agricultural revolt that grew in direct proportion to the downturn in commodity prices and the global 'agricultural crisis' of the mid-

1980s. Success in securing international reform would not only allow a very efficient Australian rural sector to reap the financial rewards in a more open global marketplace, it would lessen the widely held view in the countryside that the ALP was not doing enough to help the farming industry in a time of crisis. An externally oriented campaign against the illiberal practices of the United States and the EC, while not a complete answer to the Labor government's political problems at home, was a useful political palliative.

Labor attempted to place the blame for the trend towards economic nationalism in general, and the downturn in world commodity prices particularly, at the door of the EC's profligate policies, the US's retaliatory EEP, and (in terms of access) the closed nature of the Japanese market. The specifics of the trade-distorting measures of the major actors were identified in numerous detailed and highly publicised studies of the Department of Primary Industry and the Australian Bureau of Agricultural and Resource Economics, on the trade distorting and inefficient nature of the CAP (1985), Japanese restrictions on food imports (1988), and the protection of the American grain industries.³⁷ The first two of these studies were translated into French and Japanese respectively, and all were distributed widely within their targeted areas.

In addition, senior members of the government, including Bill Hayden and Gareth Evans as foreign minister and John Dawkins, Michael Duffy, and Neal Blewett as ministers of trade negotiations, and even the Prime Minister, Bob Hawke, engaged in energetic bouts of personal diplomacy, especially vis-a-vis the US, the subsidy policies of which were argued to be hitting Australian export earnings at exactly the same time as the US was suggesting to Australia that it should be playing a more substantial role in alliance relations in the Pacific. Australian government criticism of the predatory behaviour of the US was joined by the equally vociferous condemnation of the US, and calls for retaliation by the Australian rural sector.³⁸

Labor's domestic strategy won it some breathing space in terms of its atavistic relationship

with the Australian rural sector. While its cautiousness to Labor remained, much of the hostility from the rural sector and opposition for opposition's sake from the rural sector was tempered considerably during this period. While other factors came into play, the role of the Cairns Group was crucial. It is not to denigrate the Group's role in *the process* of the Uruguay Round negotiations to recognize the degree to which its importance was as much domestic in the first instance as it was international. As the Australian Financial Review noted: '... the harsh truth is that the Cairns Conference has been much more about posturing to domestic primary producing voters than it is about any serious initiative to change world trade patterns.'³⁹ Yet even if this were the case at the outset, events outstripped this interpretation. The activities of the Group in the Uruguay Round took on a significance, at both the international and the domestic level, beyond the anticipation of the principal protagonists in 1986.

At the international level, the Cairns Group had a demonstrative effect in terms of the ability of Australia (and indeed, other middle powers) to take the lead in terms of initiatives on specific issues. This is not to suggest, of course, that entrepreneurial and technical leadership utilized in these initiatives can substitute for the structural leadership, derived from traditional power based negotiating abilities usually possessed only by the major powers.⁴⁰ Rather, it is to suggest that in the absence of decisive interventions by the major actors on a variety of issues, but in this instance to support an open multilateral trading system 'after hegemony,' that the role of smaller players -- operating as conflict-mitigating, agenda-moving, and proposal-building coalitions -- takes on a new importance.⁴¹ The activities of the Cairns Group in the Uruguay Round, notwithstanding that at the time of writing the success of the Round in bringing about reform may be judged a failure, represent an important exercise in complex coalitional diplomacy of a kind that will likely be increasingly important in the future.

At the domestic level, the activities of the Cairns Group were put to use increasingly, not

only as a political but as an educative tool. Australia has been able to occupy the high moral ground in the GATT negotiations on agriculture because it has the least subsidized agricultural economy in the world. It is, of course, less virtuous in other sectors of the economy (although the principal instrument of protection in Australian manufacturing has been the tariff rather than the non-tariff barrier) and the kudos gained for Australia in the Uruguay Round has been used by the Labor government in its intellectual assault on the less than wholehearted commitment to liberalization that exists in some sectors of the ALP and some sectors of the economy. Not only has Australia's commitment to liberalization of agriculture in the international domain been used to exhort domestic producers in other sectors to put their houses in order, the prospect of structural adjustment in train within Australia has also been used at the international level to invoke change in Australia's trade partners. Japan, in particular, has been constantly urged to follow the Australian example and expose its economy to the forces of the international marketplace.⁴² Thus, in this discussion of agricultural reform we can see the manner in which the level of the game keeps switching and deepening.

Canada may also be analyzed through the mode of two level -- international and domestic -- games. Canada's initial desire to participate in the Cairns Group reflected, to a large extent, the Mulroney government's concern to portray Canada as a good international citizen. Politically, an emphasis on Canadian middlepower diplomacy through a coalition of middle and smaller nations was useful in tempering criticism that the government was concentrating too heavily on forging a new bilateral relationship with the US.⁴³ Diplomatically, joining this coalition of 'fair trading' nations, allowed Canada to work towards solving the agricultural trade crisis without confronting the Americans head-on with regard to the EEP and other retaliatory measures.

If the Canadian government's original intention was to orchestrate an externally-directed reform campaign in a similar fashion to Australia; however it was forced increasingly over time

to manage the agricultural trade issue through internalized means. This gradual shift in orientation reflected the realities of the divisions and fragmentation within the Canadian farm community along commodity and regional lines. Indeed, instead of there being a trend towards a more pronounced sense of unity in the farm community, as evident among the Australian farm groups, the pattern has been the reverse. In other words, a shift has taken place towards even greater internal differentiation and nestling within distinct geographic and production groupings. To a considerable extent, this differentiated behaviour can be explained by reference to the fact that Australian producers en masse had been forced in the 1970s and 1980s to rationalize and to become more competitive in international markets. Canadian farmers, at least those with an inward-looking focus (concentrated largely in the east of the country), had been somewhat more removed from this process.

At the same time, the accelerated move towards agricultural unity in Australia reflected a more dynamic form of farm leadership in that country than in Canada. To a certain extent, the Australian National Farmers Federation (NFF) could be characterized as having a populist style. Not only did it organize mass rallies and demonstrations as protest vehicles. But, in Ian McLachlan, it had a charismatic leader who could capture media attention and who had a loyal personal following within the farming community. Beyond this populist style, however, the NFF leadership had always placed great weight on establishing the organization's credibility with respect to technical expertise. For another thing, the need for creating a better image for farmers in urban Australia was recognized. To promote this more positive image a sophisticated 'Our Country' multi-media awareness campaign was launched. Finally, a better relationship between the wider Australian business community and the farming interest was promoted (an approach eased by the fact that several of the Federation's leaders had links to agribusiness). All of these aspects of the business-side of the NFF were facilitated, it must be added, by the Federation's

ability to build up a large 'fighting fund'.

Whereas the Australian NFF served as an effective peak organization, the Canadian Federation of Agriculture (CFA) increasingly proved to be an ineffective umbrella organization in the 1980s. The fact that many commodity specific groups remained outside the CFA, defected from it, or collapsed completely reduced the organization's financial resources as well its authority to remain the general farm voice in Canada.⁴⁴ Moreover, the CFA did not compensate for its structural deficiencies through either the presentation of an effective leadership style or a sound expertise in terms of government/business relations. By choosing to stay polarized on a wide array of issues (including transportation, marketing, as well as trade policy), the CFA ended up looking more confused and indecisive. This image-problem in turn contributed to the organization losing still further credibility as an effective actor in the policy-making process.

In this vacuum, the forces of responsiveness and resistance to change within the agricultural sector struggled to influence the agenda on the basis of their own needs and interests. At the one end of the spectrum, the more export-oriented commodity producers enthusiastically embraced the concepts of efficiency and adjustment pushed forward by the Cairns Group. This reform-oriented grouping included the Canadian Cattlemen's Association, the United Grain Growers, the Western Wheat Growers' association, and the Prairie hog marketing boards. In orientation, these groups were closer to agribusiness corporations than they were to many other elements within the farm community. Confident that they were efficient enough to compete successfully in the international arena, what these groups pressed for were fair and consistent rules of the game. At the other end of the spectrum, the groups representing producers in the more inward-looking, domestic-oriented, and regulated forms of agriculture remained highly wary of change, fearing their needs and interests would be sacrificed on the altar of rationality. This anti-reform element embraced such diverse groups as the National Farmers' Union, national and

provincial marketing boards, and the Quebec Union des Producteurs Agricoles.⁴⁵

Intensifying this split was the reinforcing or accumulative tendencies inherent in the regional/commodity divide. In other words, a dominating feature in Canadian agricultural politics is what Grace Skogstad has termed the 'provincial-producer alliance.'⁴⁶ Supporting the reform-oriented agricultural groups have been the Western provinces, led by Alberta. Conversely, the forces of resistance have been strongly backed by the provincial governments in Ontario and Quebec. The UPA, most notably, was able to get the full support of the Bourassa government in Quebec for its campaign of resistance vis-a-vis trade liberalization of agriculture. Premier Bourassa, for example, wrote to Prime Minister Mulroney in July 1990 urging the strengthening of supply management so as to calm the fears of Quebec's 15,000 dairy farmers.

The Mulroney government attempted to manage these domestic tensions through a defensive transactional approach. One component of this approach was the initiation of an extensive process of consultation, involving a wide number of interests, through means both information and formal (including a Federal-Provincial Agriculture Trade Policy Committee, the Committee on Multilateral Trade Negotiations, and a Sectoral Advisory Group on International Trade) and informal means. Another component was the implementation of side-deals with both adjusters and resisters in terms of subsidies and other forms of assistance. This approach was particularly visible just prior to the announcement of the 1988 federal election. On the one hand, a number of ad hoc financial support programs were directed at the Western grain farmers. On the other hand, not only were prices in the regulated dairy sector increased, but strict limits were placed on specialty products imported from the US including yogurt and ice cream.

In the short run, this accommodative approach must be considered to have been quite successful. By putting off clear choices between the export-oriented and import-sensitive groups rather than addressing the controversial issues head on, the Conservatives were able to retain

strong political support in both the rural areas of the West and Quebec at the 1988 election. That is to say, in their two strongest pillars from the 1984 victory. Inevitably though, in the longer run, this approach proved problematic from both a foreign policy and a domestic political perspective. An ambiguous policy, with an emphasis on the lowest (or least harmful) common denominator, not only gradually eroded Canada's credibility in the Cairns Group.⁴⁷ It had the effect of fully internalizing foreign economic policy-making so that every diplomatic move was carefully scrutinized by adjusters and resisters as a test of the government's goodwill.

The Political Economy of Adjustment in Agricultural Trade

In examining the Australian and Canadian approaches to agricultural trade through the mode of two level game analysis, identifying and explaining the 'adjustment' strategies of the two countries takes on some considerable importance. 'Adjustment' as a concept in itself is a concept fast approaching the status of a cliché. A starting point for clarification is John Ikenberry's simple two-by-two conceptual breakdown of adjustment into international and domestic on the one hand and offensive and defensive on the other.⁴⁸ This schemata provides us, in theory, with a four level preference schedule of adjustment strategies for states to adopt. These are: 1) offensive international adjustment; 2) defensive international adjustment; 3) offensive domestic adjustment; and 4) defensive domestic adjustment. It becomes clear in this classification how '... international regimes ... and domestic industrial trade strategies are part of a wider whole.'⁴⁹

International strategies can be pursued defensively -- by seeking 'special' or fallback solutions -- or offensively, by creating new arrangements more suited to changing arrangements. Domestic adjustment represents more territorially-centred responses. Again, this can be done either by defensive measures to preserve or reinforce existing arrangements, or by offensive measures that would change existing, or create new structures. Ikenberry's model is set out in

• **Figure 1. It is by no means a menu from which states can choose adjustment strategies. It is not a case, for states such as Australia or Canada, of simply exercising a preference for one or another option given the international system provides the prior structural basis for state constraint and state choice.**

**Figure 1: Adjustment Policies –
Australian and Canadian Approaches to Agricultural Trade**

	International	Domestic
Offensive	Australia <ul style="list-style-type: none"> • Multilateral reform and strengthen the GATT 	Australia <ul style="list-style-type: none"> • Restructuring
Defensive	Canada <ul style="list-style-type: none"> • Canada-US FTA 	Canada <ul style="list-style-type: none"> • Subsidies

But the model does provide a way of schematizing the mix of approaches that have been taken by Australia and Canada in the 1980s and early 1990s. These approaches are set out in Figure 1. The difference that can be seen is the more offensive approach has been undertaken by the Australian government, as opposed to a more defensive approach taken by Canada. Faced with heightened economic problems, Canada has a greater range of options open to it that avoid hard domestic political and economic choices.⁵⁰ For one thing, Canada with more diversified economy, a larger tax base, and a much smaller range of export industries in the agricultural sector can much more readily prop up producers hard hit by the ploughshares war. For another thing, Canada, through the FTA and possibly the NAFTA has a viable (albeit extremely contentious) bilateral/ regional option. Whatever the costs of this type of fallback option, with respect to sovereignty and diplomatic manoeuvrability, the benefits of a separate deal with the US (where well over 70 percent of Canadian exports are directed) has some economic attraction.

Australia's options are much more limited. Domestically, Australia can no longer afford to 'throw money' at its agricultural producers. Internationally, Australia trades in a highly diversified set of export markets, none of which grant Australia special status. This is not to

suggest that Australia does not have potential bilateral/regional options open to it. But the operationalization of these options, except of course in the limited context of the Closer Economic Relationship with New Zealand, remain questionable. A privileged role for bilateralism has not been popular since the passing of the British colonial supremacy. The prospect of a special relationship with Japan, mooted and rejected in the late 1970s, is even less probable in the 1990s. And, in contrast to Canada, the notion of a free trade agreement with the US was reviewed and rejected in the second half of the 1980s.⁵¹

The pursuit of the regional option is a far more attractive, albeit even more complex, endeavour for Australia. Aside from geographical proximity, there are important complementarities between the economies of Australia and the Asia-Pacific countries, not the least of these being the potential for Australian agricultural exports to grow substantially in that dynamic growth area. Notwithstanding Australia's role in the government and non-government efforts to develop an institutional framework to facilitate Asian-Pacific cooperation, though, the barriers to this integrative process remain formidable. In addition to the constraints on the development of the two-way interaction attributable to the legacies of Australian industrial protection and the 'White Australia' immigration policy, there are immense political barriers to forging new links with 'dozens of different cultural, economic and governmental systems.'⁵²

Set against this background, the Australian Asia-Pacific Economic Cooperation (APEC) initiative must be seen in proper perspective. As we have discussed elsewhere, APEC is also a two-level signalling process.⁵³ The APEC initiative has formed part of Labor strategy at the domestic level in a manner not dissimilar to that of the Cairns Group. It was used particularly to mitigate criticism of its inability to manage the Australian economy in a time of increasing inflation, mounting interest rates and record current account deficits. Similarly, the APEC initiative was recruited into the campaign to control the damage that, the then leader of the Opposition, John

Howard's use of Asian immigration as a political issue was thought to be doing to Labor's re-election chances in 1989. APEC was a signal that Australia was 'of' as well as 'in' the region. It was also a signal to the Australian population of the importance of recognizing this fact.

Equally important for Labor's strategy is APEC's role as part of a wider search for options and manoeuvrability in Australia's international economic diplomacy. Notwithstanding its firm commitment to multilateralism as its first best option, there was growing concern in the policy-making community in the late 1980s, especially following the abortive mid-term review of the Uruguay Round in November 1988, that Australia needed a fall back strategy in the event of a collapse of the multilateral order and decline into 'blocism'. Thus, while APEC was to be a group whose pressure could be used to supplement the activities of the Cairns Group in fostering reform in the Uruguay Round, it was also seen as the foundation of a new form of loose Asia-Pacific grouping in the event of multilateral breakdown. In this respect it is important to emphasize the fact that APEC was not seen by Australian policy makers as the precursor of trade restricting regionalism but rather as the precursor of greater regional understanding and cooperation and trade *inducing* measures. As such, the aim of the initiative has been to secure what Stuart Harris calls 'open regionalism'.⁵⁴

Conclusion

Obviously, this schemata of adjustment strategies does not capture all of the complexity of the approaches pursued in either Australia or Canada. It would be misleading to suggest, for example, in the Australian case, that this model showcases the fundamental differences between the international constraints in the way of innovation in terms of foreign economic policy and political and institutional constraints in terms of domestic adjustment. In this regard, it is useful to return to the two-level mode of analysis discussed above, to explore the question of whether

the Australian government has a freer hand in the pursuit of its foreign economic goals than in the pursuit of its domestic reform package. Notwithstanding the push by the ALP to push forward with both an international and domestic adjustment strategy, it seems clear that it has been easier for the government to harness the support of domestic groups in the pursuit of international economic reform than it has been at the domestic level where rigidities and vested interests are more germane.

Nor should the way strategies may change over time be ignored. The question of whether domestic politics drives international relations (the second image) or international relations drives domestic politics (the second image reversed)⁵⁵ becomes less important than the question of under what circumstances and in what ways and the degree to which we must see the relationship between the domestic and international policy pressures and concerns of government, as *symbiotic*.⁵⁶ Scholars of both the Australian and Canadian political process have paid too little attention to this symbiosis, tending instead to favour the privileging of one group of variables over another. It was, after all, over a decade ago that Peter Katzenstein demonstrated the way in which: 'The main purpose of all strategies of foreign economic policy is to make domestic policies compatible with the international political economy.'⁵⁷

This evolving impetus for change may be illustrated by reference to the process of adjustment in Canada. As noted, it would be misleading to suggest that the FTA resulted directly in a massive restructuring of the import-oriented agricultural sectors. As the deal was negotiated, marketing boards (the main instrument of defence) were not scrapped or even radically altered. At the same time, though, the FTA did prepare the way for further pressures to build up against the existing structures. Free trade gradually chipped away at the entrenched position of the marketing boards. The most important of these incremental changes was the provision for the gradual curtailment (over ten years) of tariffs on imports of processed agricultural products. If this

modification did not alter directly the system of supply management it undercut one of the main supporting underpinnings, i.e. that Canadian processors had a 'level playing field' for their raw materials. Furthermore, if the FTA provided a 'little bang' in terms of reform, a 'big bang' could still be set off through the GATT negotiations. Many of the major issues, such as the future of Article XI (which permitted the imposition of import quotas on agricultural products where there was government-supported marketing boards), internal price support systems, and the definition of subsidies, were left to the Uruguay Round, where the stakes were even higher. As Jeffrey Schott put it, both Canada and the United States: 'kept their powder dry in the North American talks awaiting the bigger battle in the GATT,'⁵⁸

Still, there are a series of wider messages that can be drawn from the mode of analysis adopted in this paper. The Australian and Canadian positions in the global economic order cannot be explained solely by the impact of international economic transition. Indeed, many of the major economic problems the two countries face are endogenous and dependent on appropriate macro and micro-economic adjustments for their resolution. What the paper has been at pains to stress, however, is that the nature and success of the adjustment process is in large part contingent on the wider international economic environment and the manner of Australia's and Canada's integration into it. Yet it is precisely in the process of adjustment that a state's domestic economy and politics takes on the appearance of an extension of the international political economy.

The contrast in strategic options available to Australia and Canada are striking. In times of heightened economic problems, a country with the economic structure and location in the wider international system such as Canada has the ability to adopt defensive strategies. If unable to avoid the impact of many of the changes that take place in the international economy, nor in a position to alter these changes single-handedly, Canada has at least a certain degree of flexibility

in terms of its response. Internationally, this has meant the pursuit of policies driven by externalized defensive adjustment, the principal instrument of which has been the negotiation of a bilateral deal with its closest, and largest, trading partner, through the FTA. Domestic adjustment strategies have also been principally defensive, including in the agricultural sector, extensive recourse to subsidies.

This is not to say that all Canadian policies fall into the defensive category. At the domestic level, the growth and competitiveness of outward-looking Canadian agricultural products has been encouraged, at the same time as inward-looking products have been defended. At the international level, Canadian commitment to the liberalization of trade on a selected basis has been part of an offensive strategy in the Uruguay Round -- which meshes with Canada's overall reformist approach on the issues of services and intellectual property. If somewhat contradictory, this approach does at least provides Canada with a comparative range of manoeuvrability.

By way of contrast, offensive adjustment, at both the international and domestic level, appears to be the only option open to Australia given its increasing marginalization in the international division of labour. An easily-implemented defensive international option is not available for Australia. Furthermore, a defensive domestic adjustment strategy by itself is incapable of dealing with the challenges that Australia is currently facing. Identifying the prerequisites of successful adjustment, however, remains a lot easier than the politics of implementing the necessary kind of strategies at both levels. The difficulties of the adjustment process remain significant, given both the structural constraints facing Australia in the international economic order on the one hand, and the political and institutional constraints on domestic economic adjustment on the other.

ENDNOTES

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2. Gilbert R. Winham, 'The Pre-Negotiation Phase of the Uruguay Round,' International Journal 44 (Spring 1989), 290.
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5. For an interesting account of these events, see Alan Oxley, The Challenge of Free Trade (New York: Harvester Wheatsheaf, 1990), ch. 12.
6. Canadian House of Commons, Debates, 28 April 1987, 5357.
7. Annette Baker Fox, 'The Range of Choice for Middle Powers: Australia and Canada compared,' The Australian Journal of Politics and History 26 (1980), 193.
8. See, for example, John Holmes, The Shaping of Peace: Canada and the Search for World Order, 1943-1957 Vol. 1 (Toronto: University of Toronto Press, 1976).
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12. See Michael C. Webb and Stephen D. Krasner, 'Hegemonic Stability Theory: An Empirical Assessment,' Review of International Studies 15 (Spring 1989), 183-198.
13. See Gilbert R. Winham, International Trade and the Tokyo Round Negotiation (Princeton: Princeton University Press, 1986). See also Jock A. Finlayson and Mark W. Zacher, 'The GATT and the Regulation of Trade Barriers: Regime Dynamics and Functions,' in Stephen D. Krasner, ed., International Regimes (Ithaca: Cornell University Press, 1983), 273-314.
14. For a discussion about the early period, see Gerald Maier, 'The Politics of Productivity: Foundations of American International Economic Policy After World War II,' International Organization 31 (Summer 1977), 607-34.
15. Gilpin, The Political Economy of International Relations.
16. See, for example, Paul Krugman, ed., Strategic Trade Policy and the New International Economics (Cambridge, Mass.: MIT Press, 1986); Jagdish Bhagwati, Protectionism (Cambridge, Mass.: 1988); and Richard W. Pomfret, Unequal Trade: The Economics of Discriminatory International Trade Politics (Oxford: Basil Blackwell, 1988).
17. Raymond Hopkins and Donald J. Puchala, eds., The Global Political Economy of Food, special issue of International Organization 32 (Spring 1978), 581-880.
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19. See, for example, Robert Paarlberg, Fixing Farm Trade: Options for the United States (Cambridge, Mass: Ballinger for the Council on Foreign Relations, 1988), 91-7.
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22. David A. Lake, 'International Economic Structures and American Foreign Economy Policy, 1887-1934,' World Politics 35 (July 1983), 517-43.
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31. A model for this type of analysis is Helen V. Milner, Resisting Protectionism: Global Industries and the Politics of International Trade (Princeton: Princeton University Press, 1988).
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36. See Andrew Fenton Cooper, 'Australia: Domestic Political Management and International Trade Reform,' in Grace Skogstad and Andrew Fenton Cooper, eds., Agricultural Trade: Domestic Pressures and International Tensions (Halifax, NS: The Institute for Research on Public Policy, 1990), 11-133; Richard Higgott, 'The Politics of Australia's International Economic Relations: Adjustment and Two-Level Games,' Australian Journal of Political Science 26 (March 1991), 2-28.
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