Australia in the world economy:
Globalisation, international institutions, and economic governance

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Introduction

Most of the contributions to this book focus on institutions of national economic governance whose regulatory purview is limited to activity that occurs within Australia. However, one of the defining features of 'globalization'[1] is that political power and regulatory authority are no longer the exclusive preserve of governments acting within their territorial boundaries. Globalization has been accompanied by the emergence of multi-layered governance—new forms of intergovernmental, supranational and even private sector regulatory mechanisms that complement, and in some cases, supersede national governance (Higgott et al 2000). Governments have usually been willing partners in this process so it would be misleading to simply characterize these new forms of governance as being 'external to' or 'imposed on' national governments. Moreover, in an era that is being shaped by processes of globalisation, individual states are increasingly reliant on an array of inter-governmental and even non-governmental organisations (NGOs) to help them govern. Put simply, in the highly complex, internationally-integrated economic order in which national governments now operate, policymakers rely on international economic institutions to help co-ordinate such activities and provide a predictable, rule-governed framework in which economic activity can take place. These institutions for global economic governance create a regulatory environment that provides both opportunities and constraints for national governments with respect to domestic policy-making. Given their crucial role in shaping the policies of national governments, these new forms of global governance offer us another prism through which we can explore some of the central questions of this volume.

The first part of this chapter provides a broad theoretical discussion about the nature of global governance. Here we briefly analyze the historical preconditions of the contemporary globalisation and the role of international economic institutions in facilitating and managing international economic integration. The discussion also emphasises the role of these institutions in developing, transmitting and consolidating certain policy ideas with a view to enhancing our understanding of the dynamics of change at both the international and national levels. Our key argument here is that although the development of a more powerful superstructure of political institutions and economic co-ordination mechanisms across and above states may have been inevitable, the rationale that informed their policy direction was not. Particular ideas about the most appropriate ways of organising economic activity have been promoted by political and economic interests that might expect to benefit from such initiatives. Such forces have played a crucial role within the key institutions of global economic governance and thus helped to shape the contemporary global political economy itself. Perhaps the most striking aspect of the growth of international cooperation and the rise of global economic governance, however, is that, with few exceptions, the institutions of governance are informed by a highly distinctive market-centred policy framework based on a broadly neo-liberal policy paradigm.

The second part of this chapter examines how this process has affected Australia in a case study of its relationship with what is arguably the most powerful of the new international organisations that govern the global economy: the World Trade Organisation (WTO), and its predecessor the General Agreement on Tariffs and Trade (GATT). One of the most important insights that emerges from this analysis is that globalization is a two-way street. In the complex dialectical interplay between the increasingly powerful economic forces and organizational structures that constitute the external international system on the one hand, and the contingent national institutional matrix through which such influences are mediated on the other, we find that while the forces of globalization may be constraining, they are not implacable. On the contrary, even a 'middle power' like Australia can exert a modest influence on the international regulatory system that exerts a growing influence on national policy choices.

An exploration of Australia's institutional relations with the GATT and the WTO helps us to understand the constraints and opportunities that confront states, and allows us to further unpack and debate some of the key themes of this book. We are particularly interested in how the rules, norms and principles of the multilateral trade system have evolved, how they have affected and constrained Australia's policy choices. However, we are also interested in how Australia has contributed to these rules and norms. While much of the globalization literature emphasizes the limitations that confront national policymakers in an internationally integrated and competitive public policy environment (see Cerny 1996), we shall provide an illuminating illustration of the way in which, despite these apparently overwhelming forces, individual states can still play a significant role in determining transnational regulatory outcomes.

Globalization and Economic Governance

To understand the increased prominence of international institutions of governance, and of the intensification of processes of globalisation, it is necessary to say something about the historical circumstances in which these inter-connected developments took place. The unique circumstances that obtained in the period following the Second World War and the subsequent evolution of the international system under the hegemonic leadership of the United States gave a distinctive liberal cast to the post-war order, one which ultimately locked-in specific and enduring patterns of international relations.

The influence of US hegemony and the liberal ideal

The international economic institutions which play such an important role in contemporary patterns of global governance were established in the wake of the Great Depression and World War Two. The challenge of post-war reconstruction presented a powerful incentive for collaboration among western democracies, which was made all the more urgent by the emergence of a powerful and, at that time, credible ideological rival in the shape of the Soviet Union. The task for the victorious capitalist powers, therefore, was to create a set of international institutions which not only helped avoid the sorts of crises that had characterised the inter-war period, but which would actually integrate the 'free world' into an inter-linked, ideologically sympathetic order that could oppose the spread of communism.

The US-led post-war order was not simply capitalist, but its discourse was self-consciously liberal and, as such, represented the 'particular shaping of the political and social entities or spaces in which one lives through practices, principles, and institutions associated with liberal governance, rights, markets, and self-determination' (Latham 1997: 14). US-inspired policy initiatives in the post-war period were intended to institutionalise normative judgements about the superiority of individualism and free markets. From its inception, in other words, the international order that emerged following the war, which has driven the increased international integration of political and economic activity, was not simply a 'technical' solution to the problem of reconstruction and international economic management, but a profoundly political project that was as much ideational as it was an expression of American power in a more conventional sense.

The Bretton Woods Conference (1944) provided the forum in which the US-led allied powers self-consciously sought to create a new system that would avoid the policy mistakes of the inter-war, Depression years. The intention was to create a system of 'rules and understandings' that would guide the behavior of individual nations, maintain an 'open' trading system, and preclude any possibility of resorting the sorts of 'beggar thy neighbor' protectionist policies that made the inter-war slump so difficult to resolve (Eichengreen and Kenen 1994:11). As part of the process of consolidating the emergent international economic system, new institutions were established to help manage greater interdependency. The World Bank was established to finance development and post-war reconstruction, the International Monetary Fund (IMF) was intended to mange the conduct of international monetary policies, and the General Agreement on Tariffs and Trade (GATT) was intended to encourage nondiscriminatory, multilateral trade liberalization.[2]

However, it is important to emphasize just how different this initial Bretton Woods order was form the system that operates today. At its inception, the post-war international system was characterized by what Ruggie (1982) famously called the 'compromise of embedded liberalism', in which a balance was struck between the goal of maintaining an open international economic order and the wish to retain a capacity for domestic economic policy-making autonomy. Indeed, for the first couple of decades following the Bretton Woods Agreement, there were noteworthy limits to the extent of the liberalization process. Significantly, the new economic order deliberately restricted the mobility of capital, which was seen as a potentially destructive force and central to the dynamics of the pre-war Depression. The financial sector was largely discredited and blamed for many of the inter-war period's economic problems, and lost much of its legitimacy and political influence as a consequence (Helleiner 1993: 22). Partly as a result of the financial sector's diminished influence, governments were able to use social compensation mechanisms like the welfare state to ameliorate the impact of structural change generated by integration into the wider world economy. Yet this original, highly regulated Bretton Woods regime that underpinned social welfare capitalism was ultimately undermined by a unilateral assertion of American power that overturned the established system of managed exchange rates, reduced national policy autonomy, and paved the way for the globalization of financial markets—an emblem of the contemporary 'globalized' era (Underhill 2000).

Globalization and International Economic Institutions

Globalisation is a notoriously contested and imprecise concept. For the purposes of this chapter when referring to globalisation we mean the intensification of flows of capital, goods and services, the spatial dispersion and disaggregation of production, and the transnationalization of political authority. One of the most important characteristics of globalisation in the contemporary era, especially from the perspective of smaller, less powerful countries like Australia, is that the co-ordination of complex transnational activities, like a predictable and secure trading environment, for example, is highly dependent on international collaboration. Yet despite the greater interdependency globalisation induces, and caveats about the declining authority of states notwithstanding (Strange 1996), it is important to emphasise that the realisation and operation of collaborative agreements is ultimately dependent on the authority and actions of individual states.

What is novel about the contemporary era, however, is that such collaborative activities are not *restricted* to states: one of the most noteworthy aspects of any tendencies towards globalized processes of governance is the crucial role played by intergovernmental organisations such as the IMF and the WTO, by private sector organisations such as the International Organisation of Securities Commissions, and even by individuals with specific expertise (Picciotto 1996). As Cerny (1995: 598) points out, there is a 'new disjuncture between the institutional capacity [of individual states] to provide public goods and the structural characteristics of a much larger scale global economy'. In such circumstances, states must collaborate with a range of new actors and authorities.

Although the US remains the lynchpin of the contemporary international financial and trading systems and able to influence their operation in ways other states cannot, even the most powerful states find themselves part of, and reliant upon, a complex array of institutions and organisations that together constitute a system of governance. Like globalisation, the concept of 'governance' is imprecise, but for our purposes here may be taken to imply a process of governing that extends beyond the confines or purview of individual nation states and which encompasses other self-organising, networks of authority and control (Rhodes 1996: 660). In practice, this means that national governments may no longer be the sole determinants of political and economic outcomes in specific issue areas and have little choice other than to co-operate with other states and even non-state actors. International environmental management, for example, is a classic example of an issue area that not only compels cooperation, but which demonstrates that actors from civil society may have some influence in shaping outcomes (Young 1999; Wapner 1995).

As Braithwaite and Drahos (2000) demonstrate in their mammoth study of global business regulation, it is very difficult to make generalizations about the origins, ideologies and impact of the hundreds of international protocols, conventions, agreements and organizations that regulate economic activity within and across the territorial boundaries of nation states. It is nevertheless useful to make some broad statements about the emergence of international economic institutions, their role in the international political economy and their interaction with national authorities.

In historical terms, the rise of international institutions is intimately associated with and in part a response to 'the industrial age and the liberal internationalist ideology that accompanied its evolution in the West' (Weber 2000: 105). In part then, these institutions of global governance are a response to the perceived need to reduce transaction costs in an increasingly complex and competitive operating environment; an idea that has been a central part of economic institutionalist theory (North and Thomas 1973; North 1996). This is not to suggest, however, that markets are a 'natural' phenomenon, or that they can exist outside of supportive frameworks of political authority (see Polanyi 1957). On the contrary, the evolution of the international political economy from a Keynesian-inspired regime of managed economies to the contemporary market-driven neoliberal order reminds us that economic systems reflect particular political choices and are governed by specific organisations. Moreover, these institutions of global economic governance play a crucial role in developing, transmitting of particular policy ideas - and consolidating the influence of the political and economic interests that support them - which ultimately come to exert a profound influence on governments and effectively delimit the sorts of policies that are deemed feasible.

A key point to recognise about these institutions is that they are not simply inevitable responses to the exigencies of managing complex activities like international financial markets. While much of their legitimacy and authority may be derived from their perceived competence and expertise in specific issue areas (Fischer 1990), international economic institutions also provide an important forum for the expression of political interests. That being said, institutions are not just member-driven forums for the expression and negotiation of difference among nation states; many international institutions have the capacity and often *the desire* to influence the course and content of national policies along particular lines. In other words, even though intergovernmental organisations are necessarily the creations of governments, once established, many of them can assume something of a life of their own. This is especially true of the institutions such as the IMF, the World Bank, and the Organization for Economic Cooperation and Development (OECD), which all have large and well-resourced secretariats.[3] It is less true however of the WTO; as the events of the Seattle Ministerial Meeting of December 1999 showed, despite the enthusiasm within the WTO Secretariat for a new 'millennium round' of trade negotiations, in the absence of consensus among the member states, the 'organisation' can do nothing. Generally speaking however, the prestige and authority that attaches to international institutions as supposedly independent and apolitical repositories of specific expertise may give international organisations the potential to influence state behaviour, especially where states find themselves vulnerable as a result of economic difficulties. As Barnett and Finnemore (1999: 713) observe: 'Armed with a notion of progress, an idea of how to create the better life, and some understanding of the conversion process, many international organization elites have as their stated purpose a desire to shape state practices by establishing, articulating and transmitting norms that define what constitutes acceptable and legitimate state behavior.'

Theorising policy change: regimes, policy entrepreneurs and epistemic communities

To understand how this complex dialectic between national and global forces operates, and why it is that only certain sorts of ideas and initiatives are likely to be championed by such organisations, we need to situate the relationship between national governments and international institutions into a wider theoretical framework. There are a number of ways of conceptualising the relationship between individual nation-states and that complex array of international organisations, financial structures and corporations that is the 'external' system, or between 'domestic' and 'international' politics more generally. Robert Putnam (1988: 434) famously suggested that the domestic-international relationship could be thought of as a 'two-level game' in which politicians attempt to construct coalitions amongst domestic pressure groups and then satisfy their demands by minimising the impact of adverse external developments.[4] Although this model was a significant improvement on those that neglected divergent domestic sources of policy, in the increasingly interlinked contemporary system where the status of discrete national economies is questionable (Bryan 1995), and where political activity routinely spills over national borders or is penetrated by external forces, even this formulation seems inadequate. Not only are the boundaries between 'inside' and 'outside' pragmatically porous, theoretically contentious and changeable across time (Buzan and Little 2000), but the overarching institutional framework and politic-economic context within which international activity occurs, and which helps to determine which issues are addressed by organisations and national governments in the first place, is seriously neglected.

One way of overcoming this deficit is by introducing another contested concept: regimes. Particular issue areas, like the maintenance of an open trading system, or global environmental problems, require collaborative transnational efforts if they are to be managed effectively. The great advantage of regime theory is that it offers a way considering the complex and shifting web of political authorities and practices that constitute an international system of governance, or elements thereof, at any moment in history. The great disadvantage is that much regime theory is shot through with unacknowledged or unrecognised normative biases. A good deal of regime theory has sought to uncritically explain or justify United States hegemony and the presumed benefits that flow from it (Hasenclever et al 1997). Nevertheless, regime theory does offer one way of both linking together various levels of analysis, and of grasping the way such disparate forces reflect and institutionalise the powerful ideas that distinguish a particular era (Beeson forthcoming). Indeed, the standard definition of regimes makes this link clear: regimes are 'sets of implicit or explicit principles, norms, rules, and decision making procedures around which actors' expectations converge in a given area of international relations' (Krasner 1983: 2). The big question, of course, is why some norms and principles and not others come to be dominant components of specific regimes at any given moment.

In the space available to us here, we can only sketch an answer to this question, but a couple of points are worth highlighting. First, at the most general historical level, long-term structural changes in the global economy and the concomitant change in the influence of various non-state actors may fundamentally change the norms, principles and understandings upon which specific regimes are based. One of the clearest examples of this is the displacement of the Keynesian principles that had been the guiding rationale of the emergent post-war order by monetarist ideas following the apparent exhaustion of the Keynesian system in the inflation-plagued 1970s (see Glyn et al 1990). In the case of Britain, which played a prominent role in propelling this paradigm shift, the crucial factor that facilitated this move was a political rather than simply a technocratic debate about the relative merits of policy (Hall 1993). Indeed, one of the distinguishing features of both the British experience, and the conversion to neoliberalism of the Anglo-American economies more generally, has been the ability of business interests and what Paul Krugman (1994) calls 'policy entrepreneurs' to influence governments and to change the basis and direction of policy (see Cockett 1994; Yergin and Stanislaw 1998). Structural and geo-political changes within the international political-economy presented opportunities for specific interests - especially those associated with mobile financial assets - to push for the winding back of domestic constraints and the further liberalization of financial markets (Bell 1997: 101-06).

The second point to emphasize then is that the content of both national policy paradigms and the values and ideas that are promoted by influential international organizations owes a good deal to the contingent circumstances and what policymakers have imbibed from domestic and international influences. In other words, the patterns of governance that are deemed most appropriate at any given time are to some extent learned. Because of the specialist nature of the knowledge provided by particular organizations, 'networks of experts as learners and transmitters of knowledge' have become influential parts of the policy making process (Hass and Hass 1995: 257). One of the most striking examples of the influence of private sector actors may be seen in the role played by the financial markets and the international rating agencies in sanctioning 'appropriate' public policy (Sinclair 1994). More subtly, the prominent role played by private sector experts in developing a regulatory regime for international securities markets (Underhill 1995) demonstrates the way that states have become increasingly influenced by, and reliant upon, non-state or private sector actors.

The consolidation of neo-liberalism

Let us try to draw together the threads of this highly truncated theoretical discussion and isolate the key points that will help us to understand the relationship between countries like Australia and institutions of global economic governance. The first point to emphasise is that even though we now inhabit an international system in which political authority and processes of governance are not simply the preserve of individual states but to some extent shared with a diverse array of non-state actors, the contemporary global political economy continues to be powerfully shaped by the liberal order established after the Second World War. What has changed however, especially in the period following the breakdown of the Bretton Woods system, has been the precise role played by key institutions like the IMF (Pauly 1997) and—as we shall see—the WTO. The principle of embedded liberalism has been undermined, and the policy autonomy of states with respect to domestic economic governance has been increasingly constrained. Institutions of global economic governance have become central to the neoliberal order and are associated with contemporary processes of globalisation and the dominance of international business interests. This had led Panitch (2000: 11) the state has been transformed from a welfare system into a regime 'designed to facilitate and police the free flow of capital around the globe'. While Panitch's statement is somewhat hyperbolic, especially in the context of the OECD's dramatic failure to negotiate the Multilateral Agreement on Investment

(MAI), the general thrust of his observation has merit, especially as far as the influence of the financial sector is concerned.

This leads to a second point: even though we now live in a post-Cold War environment in which strategic considerations have become increasingly subordinate to economic issues on the agendas of policymakers, especially in the industrialised world (Buzan and Little 1999), this has not diminished the hegemonic influence of the United States in the global political economy (Panitch 2000). Indeed, the East Asian crisis of 1997-98 demonstrated that once freed from the necessity of underwriting the strategic integrity of western capitalism, the United States has been prepared to use its own position, and the powerful international organisations over which it exerts such a preponderant influence, to reconfigure the domestic institutions of other nations (Beeson 1999, Noble and Ravenhill 2000).

A third and crucial point flows from this: although policy entrepreneurs, experts and epistemic communities may be influential and may—especially at times of crisis—be able to shift policy from one paradigm to another, such influences are highly constrained by the overarching character of the wider system of which they are a part. On the one hand this refers to the fact that the global political economy is dominated by American power, giving a distinct cast to the nature of contemporary hegemony (Ruggie 1993). Thus organisational change and learning can only occur where ‘the efforts of epistemic communities [are] accepted and advocated by a coalition of hegemonic member states rather than being endorsed merely by majorities of weak states’ (Haas and Haas 1995: 261). In other words, policy initiatives and ideas are more dependent on the effective political support of powerful economic interests than they are on compelling logic. Discourse is a necessary but not sufficient engine of change.

This leads to a final, obvious, but often overlooked point. If prospective policy initiatives are to become a meaningful part of the activities of states and international organisations, they must be congruent with market-centred, business-dominated, *capitalist* practices and social values. At a time when there is no obvious alternative to capitalism apart than other varieties of capitalism, it is easy to overlook how profoundly its systemic qualities circumscribe the range of ‘realistic’ options available to policymakers. While Giddens (1984), Wendt (1999) and Finnemore (1996) are right to highlight the way in which the values and interests of actors in the international system are socially constructed in complex interactions, they neglect the essentially constrained nature of this process. Great expectations are held about the progressive and transformative role of non-government organizations and global civil society (O'Brien et al 2000), but it is important to note that NGOs may be incorporated into and even substitute for state-centric patterns of governance (Morris-Suzuki 2000). Indeed, for all the attention given to apparent rise of international civil society and the prominence of NGOs, it is important to recognise that they are integral parts of and actively help to constitute and regulate a global capitalist order (Hardt and Negri 2000).

This first section has sketched the way in which an overarching global capitalist economy centred on markets and liberal values has emerged in the post-war period, indicated how it has evolved, and suggested how such developments constrain national policymakers. In some ways, this has become the dominant explanation of the post-war environment within which states like Australia must operate. And yet as the second part of our discussion will show, even small countries like Australia can exert some influence on some of the most powerful organisations of the contemporary world order. Examining the way Australian policymakers and policy entrepreneurs have gone about this tells us much about the way the international system works and the extent of the possibilities for policy activism that remain open within it.

Australia and the GATT/WTO

From GATT to WTO: From non-discrimination to free trade

The origins of the multilateral trade system can be traced to the disastrous economic policies of the inter-war period. Problems of currency convertibility in the 1920s were exacerbated by the adoption of highly protectionist and discriminatory trade policies in the 1930s and the international economy fragmented into competing economic blocs, each dominated by a major power. These economic policies were seen by many to have been a major cause of the Second World War, and there was broad albeit qualified agreement among the western allies on the importance of promoting non-discrimination and trade liberalization after the war.

In December 1945, the United States presented its vision for the establishment of an agreement on multilateral, which alongside the IMF and the World Bank, would be the third pillar of the Bretton Woods system. The United States proposals invoked the provisions of the wartime Mutual Aid agreements which had committed the western Allies to promote trade liberalization and non-discrimination in international trade. The end result of these proposals was the GATT, established in late 1947 after two years of intensive negotiations among a number of countries (Brown 1950; Gardner 1980; Wilcox 1949). Although the establishment of the multilateral trade system is often misrepresented as a singular American achievement, the reality is that it was an achievement shared among nations, the result of hard-fought compromises between competing visions for the postwar trading system. As a trading nation and original contracting party to the GATT, Australia was one of the countries that played a major part in determining the rules and norms of the multilateral trade system (Capling 2000).

The GATT was a multilateral treaty that established a set of rules that applied to government measures that restrain, distort or regulate international trade in manufactured goods. It is crucial to note that despite the assertions of many contemporary commentators, the GATT was not meant by its founders to be a charter for free trade. Rather, the keystone of the GATT was non-discrimination: its aim was to prevent a retreat into the economic blocs that had characterized the international political economy during the 1930s, and to bring an end to bilateralism and other discriminatory trade arrangements, including the imperial preferential agreements between Britain and the Dominions. Non-discrimination was enshrined in most-favored-nation (MFN) rule that requires GATT signatories to apply tariffs and other trade barriers equally to imports from all other signatories, without offering preferences or favors.

This is not to say that the norm of trade liberalization was absent from the GATT. Indeed, the GATT included rules pertaining to the use of protective and trade-distorting measures such as tariffs export subsidies and quantitative import restrictions. And, the Geneva conference that established the GATT in 1947 was accompanied by multilateral trade negotiations where representatives from 23 nations including Australia negotiated tariff reductions on thousands of traded goods. But the GATT did not force trade liberalization on any country. The freedom to use tariffs was not constrained; for instance, in Australia quantitative import restrictions and the protective tariff continued to be the most important instrument of its manufacturing industry development. Moreover, safeguards were built into the GATT to enable countries to be released from their obligations in a wide variety of circumstances (Finlayson and Zacher 1981). These norms—non-discrimination, safeguards, industry and economic development—took precedence over trade liberalization, especially in an era when there was no consensus on the virtues of free trade. As Jacob Viner (quoted in Ruggie 1982: 398) observed at the time: ‘There are few free traders in the present-day world, no one pays any attention to their views, and no person in authority anywhere advocates free trade.’

While these norms continue to influence the rules of the WTO, the dominant discourse is no longer informed by embedded liberalism but by neo-liberalism and the language of free trade. Space limitations prevent us from entering into the debate about the shortcomings of economic theories that underpin the argument for free trade, so we will only make two observations here about the impact of the neo-liberal ascendancy in the WTO. First, free trade discourse has contributed to the erosion of the norm of multilateralism by providing a justification for the proliferation of bilateral and regional trade agreements. While some trade economists argue that such arrangements are ‘stepping stones’ to global free trade, the reality is that they are inherently discriminatory and trade-distorting, and deeply undermine the original purpose of the GATT. Our second point is simply to note the cognitive dissonance associated with the WTO’s free trade rhetoric and the practices of the most powerful members of the organization. Rather than spurring some of the most recalcitrant governments to adopt trade liberalization in areas such as textiles and agriculture, the gulf between rhetoric and practice serves to undermine the integrity of the WTO and its ability to deliver benefits from trade liberalization in any meaningful or equitable way in the global political economy.

The GATT was only ever an intergovernmental treaty, and the establishment of the WTO in 1995 provided an organizational and juridical basis for the multilateral trade system. The decision to replace the GATT with what has quickly become the world's most important international economic institution reflected two needs. First, the massive expansion of trade rules into areas such services, intellectual property, agriculture, and investment measures, as a result of the Uruguay Round (1986-94) required a new international institutional framework to house these agreements. Second, growing concerns about American 'aggressive unilateralism' (Bhagwati and Patrick 1990) led other governments to seek the development of a strong dispute settlement mechanism that would help to curb unilateral actions by the economic superpowers (Ostry 1997).

It is still too soon to determine whether the WTO will be as effective as the GATT once was in enabling national political communities to express their differences, resolve their conflicts, and manage their common affairs on an international basis (Wolfe 1999). For instance, there are many concerns about the new dispute settlement mechanisms about the excessive secrecy in these deliberations and the lack of opportunities for participation by NGOs (Wallach and Sforza 1999). Others are concerned that the WTO has become excessively legalistic and brittle, and no longer has the flexibility and pragmatism that was central to the GATT (Gordon 1996).

Notwithstanding these concerns, the multilateral trade system underpinned by the GATT and the WTO, provides many benefits for small countries, hence Australia's strong support for the 'rules-based' system of trade. A major benefit of these multilateral institutions has been the way that they have helped to constrain the behavior of more powerful states. Indeed, to the extent that multilateral rules for trade exist at all, the weak benefit. Acknowledging that the global trade agenda has been dominated by the interests of American corporations, Braithwaite and Drahos (2000: *x*) still conclude that the existence of multilateral rules for trade means that 'virtually every nation outside sub-Saharan Africa [is] better off than it otherwise would be.'

Hegemony and small power influence: the role of policy entrepreneurs

The WTO, like the GATT before it, has been dominated by the economic superpowers, the United States and the European Union. This is especially true with respect to periodic rounds of multilateral trade negotiations which have been dominated by bargains struck between United States and Europe which are subsequently extended to (or imposed upon) others in the system. Most supporters of the multilateral trade system see this hegemony as a necessary if unfortunate aspect of ensuring the sustainability of the system, for without it, the Americans and Europeans would defect and the system would fall apart. Nevertheless, the capacity of the United States to set the agenda, and of the Europe to block it, has long been a source of frustration for many of the 'non-great' powers in the multilateral trade system.

Australia in particular struggled with this for many years and Canberra's diplomatic efforts to overcome the problems associated with great power domination—especially as it pertained to agricultural protectionism—had very limited success during the 1950s, 1960s and 1970s (Cooper 1998). During the Uruguay Round, however, Australia abandoned its tradition of 'going it alone' in the GATT and sought instead to promote cooperation among like-minded nations to achieve specific goals, typically in the face of opposition from one or other of the great powers. These cooperative efforts helped to prise open the negotiating process to other small powers and enabled them to exert considerable influence over agenda-setting and negotiating processes.

Before examining Australia's coalitional and cooperative diplomacy during the Uruguay Round, it is important to provide some background. Canberra's Uruguay Round diplomacy was an integral facet of the Labor government's embrace of neoliberalism during the 1980s. Beginning with financial deregulation, the removal of exchange controls on capital movements, and the float of the Australian dollar, Labor's economic reform program was designed to expose the economy to international competition as a means to force rapid structural change. Dramatic unilateral tariff reductions announced in 1988 and 1991 were aimed at winding back uncompetitive industries, and a variety of government incentive and assistance schemes were developed to promote economic diversification towards more valued-added production and the encouragement of services and manufactured good exports (Bell 1992, Capling and Galligan 1992).

The external dimension of this process focused on export diversification and expansion, increased economic engagement with the East Asian region, as exemplified in Prime Minister Hawke's 1989 APEC initiative, and on a strong commitment to liberalization and multilateralism in the global economy. Australia's efforts during the Uruguay Round were focused on two negotiating areas in particular: agriculture and services. In both of these negotiations, policy entrepreneurship was central to Australia's capacity to influence both agendas and outcomes. To be sure, in the absence of willingness on the part of the major powers to negotiate substantial agreements in these areas, Australia's small power diplomacy would have enjoyed far less success. But in the complex Uruguay Round negotiations, where the major players had key objectives and were willing to make sacrifices in some areas of negotiation to achieve desired outcomes in others, Australian diplomacy was able to bring together groups of like-minded nations that worked together in both formal and informal processes to establish new multilateral rules and disciplines in highly contentious areas of international trade.

In the agriculture negotiations, Australia's policy entrepreneurship occurred in two key areas of activity. First, during the mid-1980s, while the agenda for the Uruguay Round was still being developed, a handful of senior Australian trade officials, working closely with their counterparts in Argentina and the United States, and the Chair of the GATT Committee for Trade in Agriculture, Arthur De Zeeuw, began to give shape for a plan for what might be achieved in the agriculture negotiation, at a time when few believed that changes was possible. This work in Geneva drew on OECD research, also the result of Australian expert initiatives which had drawn their foundations from earlier work undertaken by the Australian Tariff Board and the Industries Assistance Commission (Capling 2001).

Australia's work in helping to develop a negotiating approach for agriculture was complemented by the Labor government's initiative in pulling together a group of like-minded countries to press for liberalization in global agricultural trade. Here Australia's efforts were driven by an increasing concern over the effects of trading practices in agriculture by the United States and the European Community. These countries maintained a wide variety of restrictions on agricultural imports and subsidized exports of their agricultural surpluses, often undercutting more efficient producers in other countries including Australia. Australian governments had persistently expressed concerns about agricultural protectionism and had tried many times to extend GATT disciplines to trade in agriculture, only to be stymied due to lack of support for these efforts on the part of the United States and western Europe. But by the early 1980s, the distortions in international agricultural trade were having profoundly negative consequences for Australian agricultural exports.

The Cairns Group, established in 1986, consisted of fourteen governments with an expressed interest in restoring some fairness and order in agricultural trade: Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay (Cooper et al 1993, Tussie 1993). This was a heterogeneous grouping drawn from a full range on the economic spectrum and all points of the global political compass. Collectively the Cairns Group countries accounted for 25 per cent of world trade in agriculture (greater than the United States share and slightly less than the European Community) and had major export interests in specific commodities (Oxley 1992: 113-4). Such a broad-based coalition was meant to act as a 'third force' in the Uruguay Round, prodding the Americans and the Europeans into action, while guarding against a bilateral deal between them that did not address Cairns Group concerns.

The Cairns Group was the most unusual, cohesive and effective coalition of countries ever seen in multilateral trade negotiations. Throughout the Uruguay Round it acted as a 'conscience' for the agriculture negotiations and fought to prevent the United States from giving in to the Europeans as it had done in the Tokyo and Kennedy Rounds, putting off agriculture trade reform in exchange for concessions on industrial products. In the end, the Cairns Group was not able to prevent the agriculture negotiations from reverting to the traditional bilateral deal-making between the majors—a deal that fell well short of Cairns Group expectations and objectives. But it had been able to exercise enormous influence over the negotiating process. Without the Cairns Group, the United States and Europe would have been content to paper over their differences. Without the Cairns Group, there would have been no comprehensive framework agreement with disciplines in the three areas of domestic support, market access and export subsidies. Without the Cairns Group, there would have been no barriers to the cozy market-sharing deals traditionally favored by the major economic powers.

Another area of the Uruguay Round where Australia 'punched above its weight' was in the negotiations on services which led to the new General Agreement on Trade in Services (GATS). Australia's contribution to the services negotiations far outweighed its importance in world services trade. Like the agriculture negotiations, Australia's capacity to influence the GATS negotiations stemmed in part from the role of its policy entrepreneurs. Drake and Nicolaïdes (1992) argue that an international epistemic community was instrumental in convincing governments of the merits of developing a multilateral framework regulating trade in services. Prominent Australian trade economists, Richard Snape and Gary Sampson, were key members of this epistemic community who made substantial contributions to this debate in Australia and abroad. Both went on to positions of influence during the GATS negotiation: Sampson to the GATT Secretariat as Director of Services, and Snape as a trade policy advisor to the Labor government.

Australian negotiators also played a central role in developing the rules and norms for the new GATS framework agreement. Unlike Australia's Cairns Group diplomacy, formal coalition-building was not an option, largely because services was a new area for negotiation and was therefore not a negotiation of confrontation. Instead Australia adopted another strategy open to small states, that of facilitator and 'ginger group' activist. As facilitator, Australia contributed technical and intellectual expertise in what proved to be highly complex negotiations (Capling 2001). The ability of Australian officials to influence these debates, and the contours of the final agreement, rested on their conceptual command of complex technical, legal, economic and political issues involved in trade in services. As Drake and Nicolaïdes (1992: 91) note: 'This mastery rather than brute national power accounted for the unexpectedly central roles played by delegates from countries such as Australia, Egypt, India and Sweden.' Australia's influence also derived from its leadership of the Rolle Group, a ginger group that worked to keep momentum in the negotiating process and to keep the services agreement as broad and fair as possible. Australia's 'aggressive multilateralism' in the services negotiations was a good example of the diplomacy of enlightened self-interest, an approach which served Australia's needs as well as those of many other small countries with limited economic and political clout.

Based on Australia's experiences of promoting coalitional and cooperative diplomacy during the Uruguay Round, we could draw out a few key observations. First, and most obviously, policy entrepreneurship makes it possible for small countries to influence the process and outcomes of multilateral trade negotiations, even in a system that is dominated by the economic superpowers. But here a caveat must be added. It is important to recognize that Australia's objectives in these negotiations were not limited to market-opening or purely defensive exercises: they were focused on the improvement or creation of institutions that provide a framework for the operation of global markets. For example, in the GATS negotiations, Australia's chief objective was not trade liberalization but rather the development of an effective multilateral framework with strong general obligations for non-discrimination. Similarly, in agriculture, Australia's major concern was to bring agriculture back into the GATT, and to create more transparency and accountability in national agricultural support regimes. In other words, Australia's efforts were focused on enhancing and shoring up the institutions that promote fairness in the multilateral trade system, and this is an important part of understanding why it achieved reasonable success in these areas.

Conclusion

The conventional wisdom about the status of states at the beginning of the twenty-first century – especially middle powers like Australia – is that they are increasingly less able to influence the shape and operation of the international system of which they are a part. While there is clearly a good deal of merit in this argument, we need to remember that 'the international system' is simply a convenient shorthand for that complex array of actors, activities and agreements which constitute the global political-economy. In this multi-dimensional, multi-actor world, states remain the institutional bedrock and ultimate source of authority upon which more complex modes of government can be constructed. Certainly, the state may not be as powerful or autonomous as it once was, nor can it achieve its ends without relying on other states and the host of non-state actors and intergovernmental organizations that are part of contemporary governance. Yet states, even ones with modest capacities and powers like Australia, can and do influence the international system of which they are a part. The international system is constraining, but not disempowering.

A key observation that emerges from our discussion is that despite the domination of the GATT and WTO by the economic superpowers, 'non-great powers' like Australia have played a role in shaping its policies. Although some states clearly have more capacity to influence the agendas of such organisations than others, the important point to emphasise here is that the emergence of these organisations, and thus their norms, principles and rules, is still dependent on the actions of national governments. The institutions of global economic governance that exercise an increasingly powerful influence over nation-states are a product of specific circumstances, the political choices of state actors, and the policy ideas that inform such initiatives. What is crucial about these collaborative regimes in the long term, however, is their capacity to make binding commitments that effectively lock in specific policy paradigms and marginalise others.

Not only do states have the capacity to influence the content and operation international regimes, but they play a crucial mediating role which determines the influence such agreements have at the domestic level. What is interesting and striking about the Australian experience is the way in which national policymakers actually attempted to shape international norms that would ultimately influence and encourage specific *domestic* values and outcomes. In other words, while there may now be powerful constraints on domestic policy, the state is not simply reduced to a 'transmission belt' that impotently transmits powerful externally generated imperatives (Cox 1992). On the contrary, as our discussion demonstrates, the interplay between the domestic and external spheres is a good deal more complex and reciprocal than some analyses would have us believe. What is more questionable and uncertain is whether policy initiatives that radically deviate from the neoliberal orthodoxy that has emerged over the last few decades are possible in an international system that continues to be shaped by the combined force of American hegemony and the demands of an international capitalist system dominated by the interests of financial capital. If the international economy continues to evince major insatiability that ultimately affects the US itself, we may get a chance to find out.

Endnotes

[1] Globalization is a notoriously contested an imprecise concept about which there is now a voluminous literature. For the purposes of this essay it will be understood to refer to the way in which increasingly interconnected economic, political and social processes transcend national borders and create new forms of transcontinental governance and organization.

[2] Although the Bretton Woods Conference may have had the clear goal of restoring stability and prosperity to the international system, the specifics of the Agreement reflected an important ideational struggle. British and American economists led by John Maynard Keynes and Harry Dexter White were able to exploit a uniquely fluid historical moment to influence the policy agendas of their respective national governments entrenching the Keynesian notion that governments could play a potentially crucial and effective role in regulating economic activity (Ikenberry 1992).

[3] We would not wish to overstate this institutional autonomy, as organization like the IMF are clearly closely aligned with and responsive the foreign policy agenda of the US (see Beeson 1999; Rapkin 1997). However, within the overarching context of a market centered, global capitalist system, such organizations can exert a degree of independent influence.

[4] It should be noted that in this regard Australia is somewhat atypical to the general international pattern, in that the state has actually used external pressures to *increase* domestic competitive pressures in the belief that this will enhance 'Australia's' overall economic performance. See Beeson and Firth 1998).

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