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Exaggerating the Benefits

Submission on Proposed Australia-USA Free Trade Agreement

Introduction

This submission regarding negotiations on the proposed Australia-United States Free Trade Agreement is intended to draw attention to some potential drawbacks to such an agreement. It takes this standpoint not in order to argue that Australia should abandon negotiations over anomalies such as the Jones Act restricting access to the shipping market in the USA, the high tariffs on sugar and dairy products and subsidies to agriculture. Rather, it argues that a bilateral free trade agreement with the USA is not an appropriate or effective way towards some important goals of Australian policy. These include the promotion of welfare in Australia by attention to the distribution of consumption, the reduction of poverty in developing countries and the political interests of Australia in its international relations.

This submission is largely based on the two reports commissioned by the Australian Department of Foreign Affairs and Trade (DFAT) on the potential impacts of the proposed Free Trade Agreement (FTA). It argues that these reports do not present balanced inquiries but arguments in favour of the proposed FTA. It critiques some of the arguments made in these reports and presents some alternative positions.

DFAT's Position

According to its web site DFAT has commissioned two studies, *An Australia-USA Free Trade Agreement: Issues and Implications* (henceforth referred to as *Issues and Implications*) and *Economic Impacts of an Australia-United States Free Trade Area* (henceforth referred to as *Economic Impacts*), on the 'economic and wider implications' of the proposed FTA.¹ It is not surprising that both of these reports highlight potential benefits, given the perspectives they adopt. Most conspicuously, it is the *benefits* rather than the *effects* of an FTA that are discussed throughout both reports. What is surprising and disappointing is that alternative arguments pointing to the drawbacks of an FTA are mentioned dismissively, if at all.² Some examples of the effect of this bias are presented below.

Furthermore, DFAT's web site refers to the corporate interest groups *American Australian FTA Coalition* and *Australia-United States FTA Business Group*, both of which support the proposed FTA. One could reasonably ask why public interest groups, such as *Oxfam/Community Aid Abroad*³ and *The Australian Fair Trade and Investment Network* (AFTINET) that lobby against this agenda are not mentioned in the same light. As *Issues and Implications* states, 'US business groups are particularly effective in lobbying *their* government...'⁴ Australia should learn from the experience of the USA of this excessively close relationship between business and government, notably the failure of corporations to meet legislated standards of responsibility,⁵ rather than trying to emulate it. Thus while business interests should certainly be heard, it is other stakeholders whose views deserve to be sought in a more pro-active manner than simply seeking submissions.

¹ 'Trade Issues – Australian Department of Foreign Affairs and Trade', <http://www.dfat.gov.au/trade/negotiations/us.htm>

² In particular, 'Annex 1. The Nature and Future of Globalisation', *Issues and Implications*, pp.97-102, mentions unprecedented disparities in wealth, 'riots' against meetings of international economic organisations, a 'vociferous body of literature' against globalisation, the international campaign against the proposed Multilateral Agreement on Investment (MAI), the potential for a 'race ... to push labour standards to the bottom', 'new power to massive multinational corporations' and 'the interests of poorer countries [to be] overridden' yet fails to examine any of the reasons and arguments behind these phenomena.

³ See *Rigged Rules and Double Standards: Trade, Globalisation, and the Fight against Poverty*, Oxfam, 2002. Oxfam is known for its practical approach to issues and openness to discussion and debate.

⁴ *Issues and Implications*, p.45, italics added ironically.

⁵ Giants such as *Enron* and *WorldCom* are merely the tip of the iceberg in the culture of corporate irresponsibility in the USA. It is clearly in Australia's longer-term interest to bolster economic confidence by maintaining a clear separation between government and business.

It is important for a number of reasons that all sides of the argument be heard. Firstly, it affords the best chance for making what is ultimately a political decision based on a full understanding of its implications. For example, statements that refer only to the predicted impact of trade liberalisation on Australia's Gross Domestic Product (GDP), but fail to mention the groups that will inevitably lose do not contribute to a balanced conclusion. Secondly, full and open debate bestows legitimacy on the decision that is ultimately made. If, as it states, the government wishes to advance the agenda of lowering barriers to trade amongst all the countries and trading blocs of the world, it must advance in a fashion that will avoid the potential for a nationalist backlash triggered by the discontent of those who stand to lose through this process.

Distributive Effects

By taking real consumption to be the variable that most closely represents real welfare⁶ and ignoring the question of *who* is increasing or decreasing their consumption, the economic analysis described in *Economic Impacts* fails to consider the losers from a potential FTA. *Issues and Implications* similarly downplays the possibility of the Australian economy being 'swamped in some way' by the USA despite the disparities in size of the two economies by arguing that other economies have similar trade weights in our balance of payments.⁷ Nonetheless, it is an inevitable impact of changing trade regimes that some groups in Australian society will lose economically and that this will create political and social pressures within Australian society.⁸

This point does not in itself constitute an argument against freer trade, but one for a serious evaluation of *all* impacts to be taken into account when deciding on the extent and speed with which Australia should liberalise its economy. It is fruitless to assume that any reduction of cross-subsidisation within society is a good thing. For instance, we accept that rural Australians should have comparable access to telecommunications as those in the city, despite this being, from a purely economic point of view, a misallocation of resources. We should be seeking to increase the transparency of such practices so that they can be subjected to informed debate.

Developing Countries

In 1997, the Simons report into the Australian Overseas Aid Programme identified 'a single and unambiguous objective: to assist developing countries to reduce poverty through sustainable economic and social development.' The report *Issues and Implications* also states that one of Australia's three overriding trade policy interests is 'to ensure that [the global trading] system offers the same opportunities [to improve the standard of living] to other countries for the humanitarian benefit it can deliver and for the promotion of stability in international relations that it can bring.'⁹ The increase in Australia's GDP associated with the complete removal of trade barriers between Australia and the USA amounts to around 0.4% of GDP by 2010.¹⁰ As the report suggests, complete liberalisation of trade is an unlikely outcome and a more reasonable prediction of the increase in GDP might be around half of this value, making it roughly the same as the annual budget of Australia's international development agency, Ausaid.¹¹ It should be noted that this budget falls well short of the United National Development Programme (UNDP) benchmark of 0.7% of GDP. When these figures are seen in relation to one another, it is evident that an evaluation of the outcome of an FTA should include its impact on the effectiveness of Australia's aid programme.

⁶ *Economic Impacts*, p.21.

⁷ *Issues and Implications*, p.48. This is ironic given that the importance of the USA as a trading partner is emphasised in Chapter 2, 'Australia/United States Trade and Investment', *Issues and Implications*, pp.9-18.

⁸ *Issues and Implications*, p.49.

⁹ *Issues and Implications*, p.81.

¹⁰ *Economic Impacts*, p.21.

¹¹ Australian Agency for International Development, *Annual Report 2001-2002*.

While the results of the economic modelling in *Economic Impacts* contain the assertion that the impact on third countries is minimal and positive,¹² such a conclusion cannot be sustained generally. The developing countries included in the model are among the larger and more diversified of the developing economies. Countries that are the principal beneficiaries of Australian aid, notably Papua New Guinea and the Pacific island nations, are ignored. Comparable countries in the Americas would experience similar impacts. The modelling predicts that the Dominican Republic stands to lose between US\$18 million and US\$27.5 million in lost sugar exports were the USA to eliminate its sugar tariffs on Australian imports, while smaller Caribbean countries are not considered.¹³

The potential impact of an FTA on those people whom our aid programme is designed to help, and the wider possibility of using trade policy as a tool for economic development deserve serious consideration. Trade barriers by developed countries have been calculated to cost developing countries a total of US\$100bn per year, more than twice the total sum of development assistance.¹⁴ As *Issues and Implications* points out, garments, textiles and agricultural products are areas of specialisation in trade for many developing countries.¹⁵ However it is not the case, as implied by the report, that these issues can only be treated in the context of multilateral agreements such as the WTO. A bilateral agreement such as an FTA could ensure that developing countries are not harmed through its trade diversionary impacts by containing commitments on the part of both partners to simultaneously reduce tariffs on these products. It could equally use the special and differential treatment (SDT) permitted by WTO rules to reduce trade barriers more generally to developing countries.

Liberalisation for Whom?

The report *Issues and Implications* claims that an FTA with the USA would be 'like a smaller, independent country becoming part of the Commonwealth of Australia.'¹⁶ Irrespective of the desirability of such an outcome, discussed below, this statement is blatantly false in two respects. Firstly, there is no prospect of free movement of labour between the two countries, despite the facile claim that '[g]lobalisation is fundamentally about open societies and freer movement of goods, services, capital and people.'¹⁷ Meanwhile the relaxation of restrictions on movement for business people is presented as a potential benefit of an FTA.¹⁸ Secondly, without monetary union, the prospect of speculation against the Australian dollar remains, while the FTA would prevent the Australian government making any kind of restriction on trade in the currency. In short the FTA envisaged by this document amounts to freedom for the wealthy to move themselves and their money but no equivalent freedom of movement of labour for the remainder of society.

Relationship with the USA

One line of argument presented in *Issues and Implications* is that, as the USA is currently the preeminent economic and political force in the world, Australia should be actively seeking a stronger relationship with it. This argument is bolstered by the claim that Australia and the USA share a common set of values¹⁹ and, more fuzzily, that Australia occupies a privileged place in the

¹² *Economic Impacts*, p.26.

¹³ *Economic Impacts*, p.93 & 95. The report also states on p.95 that this loss is likely to be overstated. While the associated benefits to Cuba would be welcome, Cuba is no beneficiary of USA foreign policy. The best thing the USA could do for the Cuban economy is to relax its iniquitous embargo.

¹⁴ *Rigged Rules and Double Standards: Trade, Globalisation, and the Fight against Poverty*, Oxfam, 2002, p.96.

¹⁵ *Issues and Implications*, p.82.

¹⁶ *Issues and Implications*, p.58.

¹⁷ *Issues and Implications*, p.5, repeated verbatim p.100.

¹⁸ *Issues and Implications*, p.57.

¹⁹ *Issues and Implications*, p.73.

American imagination dating from the Second World War.²⁰ These claims are difficult to sustain in light of trade disputes over steel and lamb in recent years and the current detention by the USA of an Australian citizen in a manner which is not only legally dubious, contravening *habeas corpus*, but differs significantly from its treatment of its own citizens.

Unilateral decisions by the USA to refuse agreements on issues including the Rights of Women, global warming and access to pharmaceutical products, and its 'unsigned' of the International Criminal Court treaty provide evidence that the USA is willing and able to use its overwhelming political power against the most disadvantaged people on the planet. Furthermore, the domestic economic and political arrangements of the USA, including levels of poverty incommensurate with its enormous wealth and a political process that gives disproportionate access based on campaign donations, do not inspire confidence that the USA will act beyond the immediate interests of its business community. Indeed *Issues and Implications* acknowledges that '[a]n FTA with the US will do nothing to alter the preponderant influence of domestic considerations in American policy decisions that have international consequences...'²¹

Australia should recognise that the USA of 2003 is not the USA of 1945 and question the wisdom of lining up as its prime supporter. Instead, it should balance a hard-headed and pragmatic approach with a principled stance on issues over which we as Australians are not prepared to compromise.

Negotiations

The establishment of an FTA would clearly involve negotiations between the signatories. However, as *Issues and Implications* states '[f]or the US, an FTA is thus a much less significant national economic decision than for Australia'²² It is therefore clear that in any negotiations, the USA has a stronger bargaining position. What *Issues and Implications* states implicitly but fails to make clear is that despite this inequality, there are certain points over which Australia must be firm, recognising that no FTA is better than an FTA involving such concessions. These points include:

Investment

Chapter 11 of NAFTA bestows rights on foreign investors to challenge governments over their compliance with the obligation of national treatment. *Issues and Implications* states correctly that this provision has been criticised strongly over its application to issues extending well beyond its original intention. It goes on to state that 'there is no reason why a flawed mechanism should be adopted in an Australian US FTA. It is up to our negotiators to get it right.'²³ What needs to be made explicit here is that the guarantees that foreign investors receive protecting such investment must be strictly limited, and that this limitation must be a precondition of any FTA.

Agriculture

Access to USA's markets for agricultural products is undoubtedly a significant, and possibly the most significant, concession that Australia will be seeking from the USA. The passage of the Farm Bill in the USA flies in the face of commitments made at the 2001 WTO ministerial meetings in Doha. This move not only hurts Australian farmers, but is detrimental to the interests of developing countries for which agriculture represents the best, if not the only, opportunity to increase exports, thus reducing dependency on foreign aid and improving the lives of their citizens. For Australia to join an FTA with the USA without obtaining significant concessions on agriculture would represent a failure to represent the interests of these two groups.

²⁰ *Issues and Implications*, p.74.

²¹ *Issues and Implications*, p.68.

²² *Issues and Implications*, p.48.

²³ *Issues and Implications*, p.36.

Quarantine

As *Issues and Implications* notes, the USA has an interest in Australia relaxing its quarantine management.²⁴ Since quarantine is related to agriculture, it is likely that the USA may wish to exact concessions from Australia over quarantine in exchange for concessions on its part over agriculture. The Australian position on quarantine is that its controls are justified and in accordance with international agreements. Australia must therefore refuse any linkage of these issues in negotiation over a prospective FTA.

Intellectual Property

In negotiations purportedly seeking freer trade, it is ironic that the USA should be seeking measures on Australia's part that restrict free trade in intellectual property by limiting parallel importing of sound recordings and software decompilation.²⁵ Indeed, *Economic Impacts* notes that the former would be contrary to the interests of Australian consumers.²⁶ The USA has also moved recently to put the profits of its domestic pharmaceutical industry ahead of the medical needs of desperately poor people in developing countries by blocking the relaxation of patent laws in the WTO. These facts should serve as a further warning that the USA's position is not motivated by a commitment to free trade or to improving the lot of the poorest people in the world. Australia should thus treat with caution any temptation to make a bilateral arrangement with such a partner based on an ideological commitment to free trade.

Conclusion

Many gains could be achieved for people in Australia, the USA and other parts of the world by a removal of some of the anomalous restrictions on trade between Australia and the USA. However this should not serve to blind us to either the practical limitations of what could be achieved or indeed the pitfalls associated with the creation of an FTA. In Australia, the average level of wealth and income is largely sufficient for every person to lead a satisfying and fulfilled life. It thus behoves us to consider factors beyond the immediate generation of further wealth, such as its distribution and the geo-political implications of deeper association with the USA. Further, Australia should be paying close attention to its enlightened self-interest as well as the moral imperative of working for the interests of the poorest people around the world and particularly in our region. As this submission argues, the reports commissioned by DFAT fail to consider these issues or to take seriously the many arguments and popular movements against pursuing free trade as an end in itself. It would be a serious mistake for Australia to compromise its future ability to pursue policies consonant with the interests of so many of its constituents, including future generations, when so much is at stake and the uncertainties are so great.

²⁴ *Issues and Implications*, p.39.

²⁵ *Issues and Implications*, p.44.

²⁶ *Economic Impacts*, p.8.