

Dr Bill Lloyd-Smith

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Committee Secretary,  
Senate Foreign Affairs, Defence and Trade Committee,  
The Senate,  
Parliament House,  
Canberra ACT 2600  
fadt.sen@aph.gov.au  
To whom it may concern

I hereby enclose a submission as a private citizen on the proposed free trade agreement between Australia and China. I am well aware that no such agreement has been negotiated but it is under serious consideration by the present Government.

Yours sincerely

*C.W. Lloyd-Smith*

Bill Lloyd-Smith

(enclosed)

## **Free Trade agreement between Australia and China?**

While the world has been engrossed with terrorism and the recent conflict in Iraq, Australia has quietly pursued free trade agreements with the USA, Singapore and Thailand with more agreements likely to come in the pipeline. There is still hope that future agreements can be properly checked first with substantial amounts of public debate. Indeed, there are a lot of nagging concerns that should make us very wary of any trade deal with China.

Why should we worry about this agreement? It is a good idea to consider what we are committing future generations to. China's population is more than 1.2 billion persons and is still growing.

I am very concerned at media reports that negotiations for an Australia-China Free Trade Agreement may start in March 2005 without time for public debate of the feasibility study that is also due in March. Decisions whether to start negotiations for a free trade agreement deserve full public and parliamentary debate. This matter is too important to be left to bureaucrats.

China is already Australia's second largest export market and third largest source of imports, mostly manufactured goods. A free trade agreement would mean recognition of China as a market economy and the granting of preferential zero tariff trade access to its products. This would have huge impacts on Australian manufacturing industry, with job losses in many regional areas of high unemployment. China wants to be treated as a market economy, yet it imposes strict controls on movements of its workers. The Australian Government appears to be keen to play along with these absurd claims.

An issue of major concern is the huge difference in wage structures between Australia and China. Indeed, wages in China are kept as low as possible without any attempt to enforce its own labour laws. It should be obvious to everyone that many Australian companies have moved offshore in order to take advantage of substantially lower wage costs in developing countries. Now they would be keen to do the same in China since wages are very low compared to ours. It should be obvious to you that many Australians employed in local industries will probably lose their jobs. After that they will have great difficulty in finding new jobs. Local industries provide work for local people, reduce the need to import goods from overseas and tend to reduce our enormous foreign debt (currently over \$300 billion).

We should not grant preferential trade access while China fails to enforce its labour laws and to observe fundamental workers' rights as defined by the International Labour Organisation. There have been large numbers of deaths in mines, such as a recent accident in which over 200 miners were killed.

There are literally millions of agricultural workers in China, who will be forced to leave the land, perhaps up to 200 million in fact. It is hard to believe that China will allow concessions to Australian farmers on agriculture.

Let us consider the following hypothetical scenario. We consider several nations with similar populations, similar economies and similar wage structures. Suppose that one of these countries decided to improve the working conditions of everyone engaged in paid employment, especially those who are not so well off. At once, that country is placed at a disadvantage in international competition, due to increased costs of production. Of course, this problem might, in theory, be overcome via suitable international agreements as Simone Pétrement noted in her biography of Simone Weil

(see page 317 in English language edition). This is not as practical as it looks, since it is very difficult and time-consuming to obtain these agreements. The International Labour Organisation (ILO) lacks the power to enforce its own standards.

The time-honoured solution was to use measures such as tariffs but these ideas are strongly rejected by most economists these days. WTO and GATS rules restrict the usage of tariffs and other measures intended to discourage imports. However, it is permitted under WTO rules to impose a uniform surcharge of imports to correct a balance of payments problem. Both Ken Davidson of "The Age" and the late W.C. Wentworth have made that point and advocated such measures.

Of course, my purpose in describing this scenario is to illustrate the problems in making trade agreements between two nations (such as Australia and China) with widely differing wage structures. The difference in populations does not help. You really have to ask what benefits are expected to arise from this agreement and who is going to miss out.

By going ahead with this agreement, are we really helping China or ourselves? It is so easy for economic advisers to come up with ways to increase "efficiency" through more foreign trade and more outsourcing and so on. They purport to justify their claims with the aid of sophisticated mathematical models. I have seen a few examples of these models, due to my mathematical training, and I am not convinced by the numerous assumptions that are made. Even the so-called "twin deficit" model that supposedly correlates trade deficit with Budget deficit was found to exhibit a low correlation. So much for "scientific" modeling in economics! Ken Davidson publicized that point in an article for *The Age* some years ago.

These highly paid advisers do not tell you how to suitably employ the people displaced by such cost-cutting measures in other forms of paid work. Australians are much more likely to be displaced by job losses than Thais. As for Chinese workers, are we really helping them with this agreement? Is it not obvious that we would simply be taking advantage of their low wages by outsourcing production to their country? There is little prospect of a suitable agreement being made to achieve similar wage structures between the two nations. We cannot live on the wages earned by Chinese workers and I do not see any likelihood of Chinese workers getting the level of pay that we get here.

Some people may argue that the proposed agreement is beneficial to Australia. We should ask ourselves who really benefits. The trade statistics may look impressive but we need to ask about the distribution of these benefits. Importers may derive huge benefits from this deal. An Australian worker who loses his/her job clearly derives a very large negative "benefit" if that loss is a byproduct of this trade deal. Just using "averages" to disguise these disparities is not honest reporting, as I know from my professional knowledge of statistical reasoning and statistical methods.

Further, let us consider the case of footwear. A locally made pair of men's leather shoes may well cost over \$100 here if reasonable quality is desired. A similar pair could be made far more cheaply in China. Suppose it could be sold here for a profit at a mere \$50. A cunning seller might arrange for this item to be sold at \$90, thereby obtaining a hefty profit in the process. Surely this is just a rip-off. The Chinese worker who produced those shoes does not get any benefit from that mark-up and nor does the Australian consumer who buys those shoes. This kind of thing is not new; importers got away with this type of behaviour long ago.

In the Whitlam era, tariffs were slashed but importers did not pass on the savings to consumers. This must have been a surprise to the Whitlam Government but they should have expected it. So they tried to stop that practice with new legislation. We can expect similar games today if the proposed deal ever comes to fruition.

Only a generation ago, Australia was nearly self-sufficient. Now we are rapidly losing what little control we still have over this country's resources. Unfortunately our leaders have shown little interest in the public good. Rather, our leaders have bought the idea that governments should get out of the way of market forces in the name of "efficiency". They see efficiency as an end in itself.

In passing, it is strange to note the substantial amount of opposition to the trade deal with the USA, while little is said about the trade deal with China. I do not intend to rehash the arguments against the USA agreement as you can easily find them on the Web. It is submitted that good reasons exist for concern about the China trade deal but these reasons differ in detail from those advanced in regard to the USA trade deal. Some of them have been addressed in this submission.

In conclusion, there is no need for the Australian Government to go ahead with the recent trade agreement with China. Indeed, the Joint Committee on Treaties should emphatically reject the deal. We cannot afford to get rid of tariffs quickly, even though most economists see tariffs as bad and "inefficient" so we have to live with them for some time. Please keep the public good in mind, even though it may mean that you cannot just slavishly follow an economics textbook. Economics is best treated as purely one of several tools to advance the common good.