

Mr Brenton Holmes  
The Secretary,  
Senate Select Committee on the Free Trade Agreement between Australia and the  
United States of America  
Suite S1.30.1  
The Senate  
Parliament House  
Canberra ACT 2600

electronically [FTA@aph.gov.au](mailto:FTA@aph.gov.au)

Dear Brenton, and through you members of the Committee,

The proposed “Free Trade Agreement” between the United States of America and Australia is:

1. seriously flawed in design and detail;
2. against the national interest in several ways, including through direct and indirect diminution of Australian sovereignty and capacity; and
3. not only demonstrably and potentially injurious to a range of sectors, regions and arrangements in Australia but also yielding of no likely net economic or other gain.

Comments and conclusions are briefly developed in the pages following and in associated academic works. They can be more fully developed upon request.

*I would then recommend against the current proposal for partial, preferential and unbalanced trade “liberalisation”. I would also recommend investigation of the genesis and development of the proposal.*

It is surprising that such a poor proposal could have been initially agreed between supposed allies. Likely and possible reductions in Australian national capacity would see it more vulnerable and heavily dependent upon the USA than it otherwise would have been, seriously straining alliance capabilities and worth well into the future.

This agreement can be seen to be one result of a sequence of failures in Australian national understanding and actions. These include:

1. a failure to understand market conditions and operations;
2. a failure to appreciate the nature, limitations and management of trade and its impacts;
3. a failure to define adequately the Australian national interest;
4. a failure to carry out adequate economic analysis; and
5. a failure to distinguish economic and political considerations in a constructive manner, especially as regards economic development, national interest and the exercise of sovereignty.

It is time to move beyond such failures. It is to be hoped that the present Inquiry can be a constructive step in this direction.

I would humbly suggest that the members and this Committee as part of their present endeavours

1. explicitly frame, define and delineate the components of the Australian national interest and then draw attention to, and strategically seek to resolve, areas of priority, issues of tradeoffs – or not, responsibility and mechanism;

2. review current Australian institutional capacities and recommend the development of a more explicit and mature consideration of trade than currently is the norm; and
3. recommend in the light of such things an effective line of development for improved Australian trade performance, including the roles and realities of trade liberalisation and our currently weakened international position.

I applaud the possibilities that can arise from liberalised trade. However, our failure to recognise the realities of international trade means that Australia is poorly placed in, and indeed has already been somewhat impoverished by, current international developments. Rectification of such things is, I would suggest, an important national priority. It is also an international one, and Australia could take a leading role in moving global thinking and practice past current futilities, tensions and impasses.

To put things into an immediate focus questions such as these might be considered:

- *How alike really are the Australian and US economies, and what are the implications of existing differences?* We in Australia seek to strike a deal with a major competitor yet rather than cooperate, collude or enter strategic partnerships (as businesses sensibly might) we are rearranging border and institutional conditions in unbalanced ways. We seek to “bolt onto” their economy and essentially consider only simple gains. Incompatibilities between regulatory regimes, for example, seem to be ignored, not only in areas like pharmaceuticals and copyright but also in broader business areas such as antitrust. In agriculture the central question of how unsubsidised producers are supposed to compete with the subsidised is completely ignored. Until such things were resolved, if they could be, there would be no level playing field under any FTA, no matter how good. Indeed resolution is likely to be made more difficult once any agreement were in place, otherwise why would the advantaged (notably selected US businesses) seek to reduce their positions?
- Much ado has been made about the effects of minor changes in tariffs and these will be a focal part of CGE and like models. Such things are interesting but should be of little real interest, including to international businesses, given the movements in the Australian currency and the growth of non tariff barriers over the last few years. Additionally, the existence and influences of international supply chains appears unacknowledged and unmodelled. Influences from along the supply chain (market imperfections to some) exist – otherwise the prices of imported vehicles, for example, would have risen and then dropped (to the order of 40 percent or so). The fact that such market adjustments do not occur has both conceptual and policy implications. *How then have economic modellers factored in such things?* If they have not then modelling results can be expected to be inaccurate and potentially misleading. There are models available that can provide insight into such things.
- *Why would Australia consider that freer trade and perhaps integration with the USA would advance its interests given a starting position that is more comparable with the poorer US states?* Such states have relatively falling behind within the USA despite the redistributive mechanisms within the US federation, such mechanisms not being available to Australia under the proposed agreement. If Victoria, for example, begins as more like a small Virginia, South Australia a West Virginia or the whole of Australia a 25% plus poorer Texas, how could we in Australia realistically expect gains, especially

given the extensive subsidies already available to the US states and producers and the ongoing poor performance of the poorer ones? (At least in an EU-type integration arrangement there would be Objective 1 and other funds to help to try and overcome our significant economic disadvantage.)

- At the same time as refusing any market access for Australian sugar, the USA has offered Central American countries under CAFTA additional 99 000t quota access growing annually at 2% simple. Interestingly, the agreement may see payment of cash in lieu of actual access. Not only will subsidies then be exported but the undelivered product will further corrupt the world sugar market. *Why would Australia, which is already challenging EU sugar regimes through the WTO, not only fail to gain equivalent increases in US market access comparable to those offered Central American sectors but also compromise possible future WTO challenges against the US sugar regime?*

Considerations of such common sense questions may bring some of the limitations of current thinking into sharp relief.

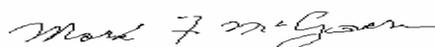
An important question is whether it is in Australia's interest to integrate with the USA. This appears largely unaddressed but comments from a range of sources (including direct statements from Australia's chief negotiator Steve Deady while at QUT) demonstrate that such is the underlying strategic position. The reincorporation of Australia and the Australian economy under a greater external agency and power is a very serious national issue, one that lies at the heart of any real consideration of sovereignty, nationhood and like matters. It deserves clear, careful and penetrating examination. "Integration" should be neither presumed nor allowed to happen by default nor through laxity. It is clearly a significant responsibility and I ask that this Committee explicitly begin to address it.

In support of my recommendations and comments I would like to offer

- some further brief comments in the pages following. I particularly address how considerations of the national interest might be framed.
- brief notes and a DVD recording of the "Evaluating free trade and beyond" conference held at the Queensland University of Technology on February 23<sup>rd</sup> 2004

I would also like to offer shortly relevant papers that I am currently finalising. Finally I am very happy to work with the Committee and its members in any appropriate ways so as to expedite and advance the important work of this Inquiry.

I look forward to discussing these matters further and would welcome any opportunity to appear before your Committee



Mark McGovern

B.Sc., Dip.Ed., B.Econ., M.Reg.Sc., PhD.

April 29<sup>th</sup> 2004

Senior Lecturer

School of International Business, Queensland University of Technology

2 George Street, Brisbane 4000

Electronically [m.mcgovern@qut.edu.au](mailto:m.mcgovern@qut.edu.au)

## **On framing the national interest: initial thought on key issues and perceptions**

*These comments represent some initial thoughts and are offered for discussion purposes. They should thus be treated as working draft materials rather than a final or fully developed position on the issues and problem.*

A range of considerations can be used in discussing the national interest and how it can be advanced. Popular in Australia today is the use of trade liberalisation to stimulate economic growth, this being assumed to be in the national interest.

Thus if modellers find that the USA<sup>A</sup>FTA increases GDP then this will be taken as a generally good thing. However any such estimate is not only limited (including by the adequacy of both the model as formulated and the modelling undertaken) but also clearly partial.

Any General Equilibrium modelling is unlikely to adequately capture the range and magnitude of effects from a USA<sup>A</sup>FTA. This will be particularly so if assumptions are made as to full employment and perfect competition.

Even if we allow that estimates might have some validity, care is needed in interpretation. For example, while a gain of \$2b say appears a lot it is only a small part of a \$700b economy, less than 0.3%. Alternative interpretations of supposed gains such as \$100 per person or 28 cents a person a day also need care since it is highly unlikely that gains and costs will be distributed uniformly.

It is in the mismatch of costs, risks and returns that a USA<sup>A</sup>FTA may well have the most troubling effects.

As an example and for purposes of discussion, the USA<sup>A</sup>FTA can be seen as a return of 1940s Brisbane Line thinking: expose the North (via their agricultural sectors) and advantage the South East of Australia. Such are the potential patterns of impacts across the Australian regions.

Such thinking was poor in the 1940s, reflecting as it did a First World War mentality of impregnable lines of defense. It is even poorer today in a post-Cold War era. It is grossly irresponsible if terrorism and illegal immigration are seen as priorities.

What are the links between economic circumstance and national defense? Failed states across the South Pacific indicate the types of problems – and the necessary defense force responses - that can arise in impoverished regions. More adequate analysis is needed to delineate issues and links in this area.

Such speculative considerations illustrate the need to have a more comprehensive view of “national interest” and of how it might be advanced.

When nations choose to advance their interests, they may use hard (eg military) or soft (eg economic) means. The key question for Australia in its relations with the USA is how the hard and soft options complement for our individual and collective gains.

There is an untested assertion that free trade is a useful complement to the existing military alliance and general good neighbour relations. There are, however, a number of feasible circumstances under which an FTA could be an impediment, one that introduces unneeded weaknesses.

One means of ordering such thoughts is clearer definition of concepts and appropriate classifications. One working schema is presented on the next page. For purposes of illustration, “current” concerns are highlighted. “National interest advancement” then becomes “more (or less) GDP and border defense through national external trade growth”.

Such simplicities are clearly over-simplifications. They do point out underlying assumptions and conventional wisdoms however.

Importantly, a schema such as that outlined provides a framework for consideration of alternative views on, and approaches to, advancing the national interest. Different interests and parties can be seen to variously position themselves around the schema. It is through appropriate dialogues, including political processes, that nations reconcile differences and agree on directions and emphases.

Consider the text of the preamble to the GATT and subsequent WTO agreements:

*The Governments of...*

*Recognising that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of resources of the world and expanding the production and exchange of goods,*

*Being desirous of contributing to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce,*

*Have through their Representatives agreed as follows, ...*

The partial nature of the currently popular interpretation is clearly evident as is a wider view. Also evident are differences in assumed economic and societal mechanisms.

The USA<sup>A</sup>FTA is a preferential trade agreement that appears little in the spirit of the GATT/WTO initiative. While opinions differ as to how bilateral and multilateral arrangements may be reconciled, any movement towards selective bilateralism need to be taken with great care. This is especially so from the Australian point of view when the USA appears to be working on a hub-and-spoke trade model with “competitive” liberalisations and advantage. Such an approach is discriminatory by design.

*I must apologise for the initial state of development of these issues. Time has not been available as expected. Rather than delay submission, I am forwarding these initial thoughts with a request that supplementary submissions be allowed.*

Mark McGovern, April 29<sup>th</sup> 2004

