

30 April 2004

The Secretary  
Select Committee on the FTA Between Australia and the USA  
Parliament House  
Canberra

Dear Secretary

I write to make a submission on the proposed US-Australia Free Trade Agreement. I include some material from my submission dated 5 August 2003 to the Committee's previous inquiry, given that so many of the issues I covered remain unaddressed.

Many good critiques of the detailed provisions of the proposed agreement have been aired publicly. I do not propose to examine the minutiae of the various provisions, as I think I can be of better service to the Committee by exposing the poverty of the policy analysis underpinning the Government's pursuit of the Agreement and by embedding it in a better conception of Australia's 'national interest' than the Government has yet presented.

Some of my credentials to write on public policy are as follows.

### **Qualifications**

I have a Bachelor of Science (Hons) and a Master of Public Administration. My M.Pub.Ad. dissertation was on the subject of "how ideas become fashionable". As a case study I examined economic policy. This study has given me an insight into how sometimes fashions in policy take hold despite all objective evidence to the contrary.

I am a part-time PhD student in public policy at Griffith University. My theme is to define what is the 'public interest' and the 'national interest'?

### **Service as an Elected Member**

From 1980-86 I was a Councillor and in 1983-84 Shire President, Shire of Sherbrooke, Victoria. This experience involved me in public policy from the perspective of an elected member.

### **Public Policy Affiliations**

I am a public service manager with more than a decade's experience in formulating and managing public policy. I am literate in economics: for example, I have recently had published in UNESCO's *Encyclopedia of Life Support Systems* a 12,000 refereed essay examining GDP as an indicator of economic progress.

In 2002 I travelled to London, New York, Harvard and the USA west coast interviewing scholars and practitioners about global public goods and public interest. I held appointments with the United Nations Development Programme and Professor J.K. Galbraith. I attended the NGOs' forum on Financing for Development in Monterrey, Mexico, just prior to the official UN-sponsored conference on that theme.

Yours faithfully

Geoff. Edwards

## A-USFTA: A CASE STUDY IN ASSUMPTION-LED ANALYSIS

### ABSTRACT

The A-USFTA is a "dud deal" for Australia, for many reasons, based upon its inadequacy in the following components of good public policy:

- *objectives*: its origin out of an apparent desire to integrate Australia's economy and defence strategy with those of the US is 'backing the wrong horse';
- *consultation*: with civil society and the community has been inadequate; the representations appear to have fallen on deaf ears;
- *evidence*: the track record of free trade generally as a source of economic prosperity does not support the overblown claims made for it by DFAT or the Government; and the claims of benefits to Australia from this particular deal are nebulous and unconvincing;
- *theory*: free trade theory is based on fictional assumptions the unreality of which is routinely overlooked;
- *analysis*: DFAT is not displaying the independent analytical capacity which is necessary to lead the Government away from bad policy errors; and its concept of *national interest* is superficial and ignoble;
- *endorsement*: the Government has given political approval to the A-USFTA prematurely, before the analysis has been completed, and in so doing has hobbled objective examination.

A critical question is: *Who benefits from this agreement and who loses?* Trade Minister Mark Vaile is reported to have admitted (Colebatch 2003) after a business trip to the USA "We were consistently urged by the (US) private sector to...complete the negotiations as quickly as possible...". They would, of course, wouldn't they. This telling quote sums up the A-USFTA: it has selective beneficiaries, notably the US which gains almost unfettered access to Australia's natural resources and government procurement; and corporations, both international and domestic, who see the prospect of weakening the capacity of the governments involved to regulate in the public interest.

The A-USFTA spells out a radical political agenda embracing free trade, financial liberalisation, privatisation, deregulation and other pro-market programs to re-engineer society to the advantage of business and capital and the detriment of labour and community. The manifesto which spells out his agenda (the Agreement) is too complex and arcane for Australians to be confident that the Parliament and the public service have the measure of its consequences.

Ultimately the loss of sovereignty is the most important deficiency. By a simple contractual agreement, the Australian Government is proposing to subordinate the capacity of the Commonwealth, State and local governments to determine Australia's future. This is profoundly not in Australia's national interest.

### BACKGROUND

#### Status of this Paper

This submission is made in a private capacity to assist the deliberations of the Senate Select Committee on the proposed Australia-USA Free Trade Agreement (A-USFTA).

#### Introduction

The formulation of public policy is not a clinical process. This applies to foreign affairs at least as much as to any subject. The best intentions of a government can be thwarted by random events, by natural disasters, by personalities or by unpredictable political forces.

However, there *is* such a thing as *good*, robust public policy and there *are* procedures that competent policy analysts follow to overcome the more erratic and disserviceable forces in the policy environment. In turn, good governance does not just happen by chance but depends heavily upon good policy.

The materials that the Department of Foreign Affairs and Trade has published to advance the Government's agenda of globalisation of trade and investment argue only one side of the case, as if 'there is no alternative'. This fact by itself sends warning signals to any cautious student of international affairs. Simply repeating a shallow argument over and over does not make it true.

My submission aims to assist the Committee by exposing the internal contradictions within official trade policy and by offering an analytical framework to explain national interest and free trade. I will first describe the features of a robust process of policy-making, move on to examine the A-USFTA (both its *content* and the *process* by which it was compiled) against these basic standards, and finally examine whether the A-USFTA advances Australia's 'national interest'.

## Abbreviations

A-USFTA: Australia-US Free Trade Agreement

DFAT: Department of Foreign Affairs and Trade

FTA: Free trade agreement or A-USFTA

GATS: General Agreement on Trade in Services

GDP: Gross Domestic Product

IMF: International Monetary Fund

JSCOT: Joint (Parliamentary) Standing Committee on Treaties

NAFTA: North American Free Trade Agreement

OECD: Organisation for Economic Cooperation and Development

WE: World Bank

WTO: World Trade Organisation

UK: United Kingdom

US, USA: United States of America

Government: sometimes the relevant Commonwealth Ministers, sometimes DFAT plus Ministers.

## THEME 1: THE FUNDAMENTALS OF GOOD POLICY FORMULATION

Effective and enduring public policy builds upon sound foundations. These are, ideally:

- a *vision* or set of *objectives*, including a coherent conception of the *national interest*, to ensure that the government and its people are not merely driven by events and other peoples' agendas;
- a program of *consultation* and *dialogue* with various departments, experts from a range of disciplines, affected stakeholders and the citizens to add depth and to validate the emerging findings;
- a body of *evidence* or *observations* including prior experience to bring reality into the analysis;
- a serviceable *theory* that conceptualises problems coherently and links cause and effect as reliably as past analysis and scholarship allow;
- an honest, non-partisan *analysis* by competent professional policy officers under conducive institutional arrangements;
- choice between options, refinement and *endorsement* by the appropriate political authority.

Involvement by the political authority is essential during the vision-setting, consultation and endorsement stages. However, the theorising, evidence-gathering and analytical stages are the speciality of partisan-independent policy practitioners. Of course, the stages are not clinically sequential: for example, the analysis stage may usefully be interrupted by periods of iterative evidence-gathering or consultation.

Senators do not need me to advise them that public policy is an 'untidy' process. Failure of a policy-making exercise to satisfy objective standards in one or more of the above stages does not of itself disqualify the exercise, but the further that the exercise drifts away from best practice competence, such as into blind ideology or power games, the higher is the risk that it will lead the government into error. It is precisely to guard against that risk that the profession of public administration has developed standards of best practice since the evolution of a modern civil service from the Northcote-Trevelyan reforms of 1854 in the UK. Central to those standards is a strong, non-partisan capacity in policy analysis among the ministerial departments.

The A-USFTA is essentially the expression of a public policy exercise. How well does the pursuit of the A-USFTA

conform to this benchmark model? Each of the above pillars can be evaluated in turn, with a special section devoted to 'national interest'.

## THEME 2: OBJECTIVE-SETTING

### The Government's Alignment with the US

Senator Cook (2004) claims that the initial motivation of the Government for this FTA, this time around, sprang from an analysis of ways of strengthening the ANZUS alliance. Using the Government's own words, prominent among its motives for this FTA is its desire to tap into the world's most dynamic economy:

"The United States will remain the pre-eminent global power for the foreseeable future. ...its economy has significant underlying strengths—its policy settings, research infrastructure and productivity growth." (Clth 2003:87).

I submit that this objective is seriously misplaced. The USA's pre-eminence is decaying. Here is some evidence about the contemporary US economy and strategic position in those three features:

- its global *policy settings* are unilateral and disserviceable. The US has embarked on a war without limits — threatening Muslim self-identity and driving North Korea to build up its nuclear capability; it continues to use its influence on the IMF and World Bank to impose debt obligations and trade injustices which immiserate hundreds of millions of people; it has earned the disdain of the world by refusing to sign up to collective agreements such as Kyoto, the land Mine Ban Treaty and the International Criminal Court; and its corporations in the past five years have revealed the worst features of global capitalism (Beeson 2004);
- its under-investment in education and *research infrastructure* compared with some of its Asian competitors. China and India from 1999 each awarded more bachelors' degrees in science and technology than the US. An estimated 500,000 high-tech jobs are to be outsourced in 2004 (a consequence of trade liberalisation — Salkever 2004). A major part of the US' research spending disappears on unproductive defence;
- such *productivity growth* as is still happening is based on unsustainable foreign debt and trade deficit, a \$500 bn budget deficit, a wasteful arms build-up and a profligate waste of petroleum fuels. Investor Warren Buffet, the second richest man in the world commenced buying foreign currencies in 2002 for the first time (Buffet 2004).

There are strong reasons to doubt that "...global power has shifted decisively to the US and that US hegemony will endure." (Kelly 2002; Vaile 2003a; Capling 2002, DFAT 2004:4). The US is facing rising financial instability and international hostility. It would be prudent to review recent economic trends within the US. For example, New York consulting firm RoperASW in 2003 for the first time in five annual surveys found that global support for favourite US brands has slipped (Miller 2003). There are also indications that the US has over-extended itself militarily (Wallerstein 2002). As for economic strength, in Liu's words:

"The dollar now is pegged to US geo-political prowess, no longer bearing any relationship to the state of the US economy. Economics not longer has anything to do with markets nor trade has anything to do with comparative advantage. ¶Dollar hegemony will cease if and when exporters demand payment for their goods in their own local currencies."

There are limits to US economic and military power and those limits are in sight. US dollar hegemony is built on the willingness of other countries to invest in the US and to accept dollars as the currency in which basic commodities are traded. This is a very fragile foundation, as it depends on willingness of Muslim oil producing countries to denominate oil in dollars rather than euros and on the general confidence of the world in the US' economic health (Wolf 2003). There is no reason why the US dollar must remain strong. If Iran, Venezuela or some other country denominates euros as the preferred currency for its oil trade, the value of the US dollar could move decisively against Australia's capacity to export to the US. Confidence, already under threat (Garrett 2003), can evaporate overnight.

### Trade for the Sake of Trade

Most official expositions such as DFAT's submission to the Committee's previous inquiry (2003) portray the goal of trade as increased growth and the goal of growth as increased standard of living, as if these can continue indefinitely. This materialistic, myopic view of the human condition is not shared by most other intellectual disciplines, by history, philosophy, religion or literature (Hamilton 2003). The end conditions sought are expressed in all cultures in qualitative terms: health, useful work for its own sake, lifestyle, status, freedom from oppression and security. Economic growth and trade should sensibly be viewed only as intermediate processes for achieving these ultimate ends. But in supporting materials DFAT has published, growth and trade, the processes, have supplanted purposeful goals to become goals themselves. This is trade for the sake of trade — or perhaps, for the sake of the traders.

In any case, these expectations of continued growth through trade cannot be realised, for two reasons. The first is that the productive capacity of the world's factories now far exceeds the earning power of the world's population to purchase their products. The second is that the absolute limits to the earth's ecosystem capacities are now in sight. However, mainstream economics theory has no Plan B.

If growth — an increase in consumption, an increase in the volume of raw materials en route to waste dumps — is accepted as a poor measure of a society's well-being, the case for free trade as an end in itself is thrown into disarray, for it rests on the capacity of trade to increase the throughput of goods and services, by seeking out original or cheaper products. In other words, if Western over-consumption is perceived to be a problem in its own right, then the virtues of trade are greatly discounted (Dunkley 1997:268).

### THEME 3: CONSULTATION

#### DFAT's Consultation

It is not sufficient to consult the public or experts; it is also necessary to consult honestly. While DFAT sometimes *consults* over its policy proposals, there is strong evidence that it genuinely *listens* only to those sectoral groups which support its free trade positions while it lectures others for their ignorance (e.g. Capling 2002).

I surveyed the identifiable NGOs and individuals who had made submissions to DFAT while it was preparing the 2003 White Paper *Advancing the National Interest*. The level of cynicism among those who replied was remarkable. Not only did they feel that their submissions had been ignored, but many volunteered that they did not expect otherwise.

DFAT's peak body for trade consultation is the Trade Policy Advisory Council, with 11 members from industry, one from academe and one from the National Farmers' Federation (who are also free trade enthusiasts) (DFAT 2004a). The absence of civil society representatives is notable, although admittedly they are present on the broader-based WTO Advisory Group.

#### Not all the Experts are Correct

Not all experts are correct and not all the commentary on the A-USFTA will be helpful to the Committee. Typical of uncritical commentary is Mitchell (2004):

"As every economist knows, the idea [that] exports should be promoted and imports restricted is nonsense. ...It is the imports that enhance our economic welfare."

This un-nuanced generalised assertion is profoundly untrue. Yes, some machine tools and high technology services that we cannot produce ourselves may enhance our economic welfare; but we don't gain by closing down factories and importing basic goods while leaving our own people idle; and a country prospers by its production not its consumption.

And Sheridan (2004):

"There is a distinct whiff, malodorous and rank, of hypocrisy, cynicism and opportunism in Mark Latham's opposition to Australia's free trade agreement with the US. ...if it knocks over this opportunity to get a deal

with the Americans, Labor will have done the national interest incalculable harm."<sup>1</sup>

With polemic like that being launched by the pre-eminent Australian broadsheet into public debate, one looks to the Senate to examine this agreement honestly and to separate reality from 'spin'. It is because this polemic is rife that I offer to the Committee a critique based upon the fundamentals of good public policy.

#### THEME 4: EVIDENCE

It is difficult to find concrete evidence of even direct economic benefits to Australia from this deal.

Dr Stern, former chair of the US International Trade Commission, visited Australia in August 2003 as an agent of the US Department of State to advocate for free trade. When pressed by a sceptical audience at a Brisbane lecture to explain the benefits, she was reduced to claiming that the deal was "something qualitative" (Stern 2003), a very weak defence but probably truthful. Similarly, DFAT (2004c) has been unable to provide convincing evidence of enduring substantial and tangible benefits. It has commissioned its consultants to include "dynamic" intangibles in their modelling but even this exercise is burdened by the Prime Minister's prior claim that the results will demonstrate that Australia will be a net beneficiary (Conroy 2004)! DFAT's capacity to now produce any report showing negative benefits is under a cloud.

The Minister for Trade who on 8 February (Vaile 2004) had described the A-USFTA as "overwhelmingly in the Australian national interest", four days later (2004a) conceded that the Government may have oversold the benefits to farmers. He also described the provisions for beef as "not the optimum deal" but a "good deal for the beef industry because it gives them the opportunity for some serious long term planning". Good grief.

I accept that trade and foreign investment *can* bring systemic benefits such as a permanent increase in a country's stock of infrastructure and knowledge. However, trade does not *automatically* do this. It has to bring development that the host country cannot establish itself. Trade in staples which both countries can produce, and foreign investment which sucks intellectual property away by mergers and acquisitions simply replaces local capital in viable businesses, are generally wasteful of the human resources and built capital (such as redundant factories) of the importing country (UN 2000, Singh 2003).

Foreign direct investment has to increase the level of economic activity sufficient to service the increased external obligations it creates, perhaps indefinitely (UNCTAD 2003). There is no morally legitimate reason why Australia should live off the assets or lending power of the US, nor is this sustainable, as in a roundabout way it amounts to selling the nation's family silver (capital assets) to pay for current consumption.

#### Results Have Not Conformed to Predictions

Wherever it has been implemented, the neo-liberal prescription including free trade and free financial flows has failed to deliver on its promises of prosperity. Rosy predictions have been a feature of GATT rounds for decades (TWN 2001:30). "Nowhere has the IMF policy package led to stable, sustained economic expansion." (MacEwan 2002). The package has left impoverished and indebted countries all around the world — Mexico, Indonesia, Turkey, Argentina, Brazil, Africa to mention a few (Weisbrot 2001). Australia is not yet impoverished (because its high interest rates continue to make it attractive to investors), but it is seriously indebted.

An authoritative report co-sponsored by the UN Development Programme, the Rockefeller Foundation and others (Malhotra 2003) and based upon *examination of evidence* demonstrates that the assertion that trade and investment drive economic growth is plain wrong. "Trade expansion neither guarantees immediate economic growth nor longer-run economic or human development. Internal and external institutional and social pre-conditions largely determine whether and to what extent a country or population group benefits from trade." (p.21). "...integration with the world economy is an outcome, not a prerequisite, of a successful growth strategy." (p.28). "...no country has developed simply by opening itself to foreign trade and investment." (p.30). "The quality of a country's public institutions is a crucial—perhaps the most important—determinant of its long-term development..." (p.36). (Also see Rodrik 2001, one of Malhotra's sources). Australia's public institutions such as the CSIRO and Pharmaceutical Benefits Advisory

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<sup>1</sup> This statement is plain wrong as well as ideological. Labor's trade spokesman in 2002 Stephen Martin said that "Labor is not inclined to support the Howard Government's proposed FTA with the US." (Martin 2002).

Committee have been important in developing the nation but under the A-USFTA, US representatives will 'ride shotgun' over some of them.

In Australia, governments in the 1980s and 1990s promised that trade liberalisation and micro-economic reform would transform Australian exporting into competitive success, especially in sunrise industries, but this has not happened. Certainly, exports of elaborately transformed manufactures have increased in absolute terms. However, there is *still* a deficit in goods and services: though it kicked above the line in c.2001, it sank again into its normal negative territory in 2001-02 — to \$1,975 m. For the year ended March 2003, merchandise imports exceeded exports by \$12,471 m, or 11% of the value of exports (unrevised figures) and \$16,000 m worse than in the previous year.

Yet trade optimism remains alive and well: "The [US] FTA also is an opportunity to...attract additional investment, and therefore more and better paid jobs for Australian workers." (Vaile 2003). This has to be a fiction, for foreign direct investment in a climate of mobile capital diverts a people's productive endeavours to enriching others rather than to building their own nation.

The challenge in front of DFAT and trade optimists is to show that trade liberalisation can improve not just total trade or export performance, but the *net balance* of trade, interest and dividends. In other words, unless Australia can be satisfied that the A-USFTA brings an *enduring improvement* of Australia's trade position with the US, then A-USFTA is a rotten deal for Australia. But US negotiator Zoellick has made plain that he hopes for an *enduring worsenment* for Australia. And all other countries are trying to lever advantage for *their* exporters.

Even during the two decades from 1981 when Australian exports were growing steadily, the foreign debt also grew. To reduce that debt Australia has to *accelerate* the growth in exports while *reversing* the current trend increase in its imports (J Garnaut 2003). Only managed trade and investment, not free trade, can do that.

A relevant point is that trade advantage can seesaw according to the exchange rate in the respective currencies. Since 2000, the Australian dollar has swung from about 50c to about 80c to the US dollar. These swings, which arise from speculative flows of money and capital market transactions not the product markets, can play havoc with the planning and investment of firms. Efficiency is not improved by placing industry with investment lead times of years at the mercy of capricious financial flows with a lead time of seconds.

The relative cheapness or dearness of US goods compared with Australian equivalents are partly an artefact of the currencies' exchange rates and partly an artefact of governmental domestic support and subsidy programs. Both of these forces are manifestly unfair to producers, who can meet best practice standards but still be bankrupted by shifts in exchange rates over which they have no influence. The trigger for the downfall in the 1990s of mining giant Pasminco (not that it was a model of corporate good practice) was its bad-guessing of movements in the exchange rate of the Australian dollar.

## THEME 5: THEORY

Modern trade theory shares a theoretical core with mainstream neo-classical economics, but some additional pre-conditions are specified. Neo-classical economics has been under sustained critical attack from other sub-disciplines of economics, notably for its fundamental assumptions that humans are omniscient and selfish, as mentioned in my previous submission and in the admirable *How to Argue With an Economic Rationalist* (Edwards 2002).

Mainstream trade theory however, has been less often scrutinised. A major trap for the Committee is that most economists, the central agencies of the Commonwealth Government and most media pundits accept without question that free trade is a Good Thing; there may be problems with this particular deal, but only insofar as it does not actually achieve the Holy Grail of free trade. I urge the Committee to look deeper and to question the credentials of free trade theory as well. My paper offers a basis for re-thinking free trade theory as well as critiquing the specifics of this FTA.

### Comparative Advantage

The intellectual case for free trade traces its origins to the theory of comparative advantage, expounded by classical economist David Ricardo in 1817. *If certain pre-conditions are satisfied*, two countries can both benefit from trade if they specialise in manufacturing those goods which they can produce most efficiently. This situation is known as *comparative advantage*. Gains arise mathematically from the differing opportunity costs of capital within each

country.

Though there have been subsequent refinements including the neo-classical Heckscher-Ohlin-Samuelson formulation (explained in Shaikh 2003), and Porter's 1990 self-proving theory of competitive advantage, Ricardo's notion of comparative advantage remains at the centre of modern policies of trade. It rests critically upon two pre-conditions or assumptions additional to those common to economics generally:

- *employment is full*: the labour or capital displaced by imports can be readily absorbed by more 'efficient' enterprises, both *before* and *after* the trade, in all participating countries. However, most countries now have surplus labour. The International Labour Organization reports that as much as one third of the global workforce is unemployed or under-employed;
- *labour and capital are not mobile* across international borders. This is partly valid for labour, which is inherently relatively immobile. For capital, however, the assumption of immobility is manifestly nonsense in a world where hot money chasing fractions of a percentage point can slosh around the financial markets at the speed of electronics, bankrupting companies or countries without a pang of conscience and without constraint by neo-liberal governments.

Alongside the standard assumptions mentioned are the requirements that transaction costs such as transport be negligible and that countries do not run persistent trade deficits. However, in reality nations with high production costs tend to suffer enduring trade deficits funded by inflows of capital. The margins that a country can gain by internal specialisation are squandered in servicing external debt. "Thus free trade does not make all nations equally competitive, as is argued within standard trade theory. Rather, it exposes the weak to the competition of the strong." (Shaikh 2003). Now, in an inversion of theory, countries are forced to export in order to service the debt that previous unbalanced trade has created (Rees 2002).

Jones (2002) has explained that free trade economists elide illegitimately between classical Ricardian analysis (in which countries appear as a unit of analysis) and modern neoclassical economics which has at its core a notion of the self-interested rational consumer, and in which countries have "an elusive analytical status". We cannot however revert to classical explanations, which were reasonable at the time but cannot support the modern absolutist superstructure built on them in an age of global corporations which did not even exist in Ricardo's era.

Ricardian 'old' trade theory has been accompanied in the past two decades by 'new' trade theory which emphasises economies of scale and niche opportunities through imperfect competition (Palley 2003). It may be possible for a country to gain theoretically from trade even if it does not enjoy comparative advantage, simply through economies of scale in production. In most industries in which this effect applies, the US would out-produce Australia. Also, if an industry is subsidised in its home country (perhaps indirectly, such as via income support as of US farmers, or export incentives, research grants or tax concessions) it can engage in predatory pricing overseas. So its imports can penetrate the target country and destroy the local competitor industry. The US extensively supports its domestic industries in numerous ways impossible to disentangle. There cannot be a level playing field with the US.

### ***The consequences of the assumptions***

Any theory is valid only to the extent that its underlying assumptions are valid. If just one fails, the theory collapses. The two foundations mentioned are both rotten at the core. Comparative advantage is a special case in which unemployment does not exist in either trading partner.

The invalidation of a theory does not invalidate a policy or specific actions derived from it, but it does undermine the theory as an organising principle. Without an adequate theory, success or failure becomes a matter of trial and error, with no guarantee that what worked in one circumstance will work somewhere else.

Ironically, globalisation does not make free trade inevitable, it negates its theoretical basis. Promoters of free trade (e.g. Oxley 2003) advocate removing barriers to movement of capital when this very practice invalidates one of the foundations on which trade policy relies.

If comparative advantage does not apply because of the inapplicability of its pre-conditions, the default position of absolute advantage prevails. In practice, this means that the strong benefit at the expense of the weak, or that the US will benefit at Australia's expense. These weaknesses are not merely market failures in an otherwise sound theory, they are inherent in trade theory. The only avenue Australia has to make trade work in its favour is to retain the tools (such



as tariffs, industry planning and foreign investment regulation) it has to express its sovereignty.

### **Trade Based on Exchange Rates is Unfair**

A freely floating currency will always be vulnerable to speculation or even deliberate action by competitors to hold down their own currencies to gain trade advantage. There is every indication at the date of writing that both the US and China are doing just that.

The A-USFTA will oblige Australia to purchase its sophisticated imports such as machine tools, computers, missile systems and foreign expatriates at prices set by the US, but it can sell its commodities or services only in competition with other poor countries offering lower labour costs, driving prices down so that the US can pick bargains. For example, prices for primary commodities in 1993 had fallen by more than 50% from 1990 levels relative to prices for manufactures (Rees 2002).

There is nothing wrong with using unrealistic assumptions as analytical tools, so long as they are recognised as just aids within a more comprehensive investigation. The error lies when the normative proposition that under theoretical conditions, competitive trade *should* behave in the classical way, shifts imperceptibly to the positive assertion that in real life it *will*, if only governments would get obstacles out of the way (Shaikh 2003). A second error lies in adhering to theory which is two centuries old and ignoring theoretical insights from new sub-disciplines of economics and from other disciplines.

For more detail about the flimsiness of the assumptions underpinning trade theory I refer to Keen (2001) and Palley (2003). The case for an un-nuanced stance is theoretically weak. Trade in products in which countries each have a distinctive advantage may be mutually beneficial, but the pre-conditions are tight (Batra 1993).

### **Copyright and Free Trade Cannot Both be Theoretically Valid**

Intellectual property, of which the US controls a disproportionately large share, is a trade-related barrier, a monopoly created by the state. Its ostensible purpose — to allow innovators to recover research and developmental costs and to recoup an adequate reward for their inventions — contradicts trade theory which lauds the competition which follows removal of barriers to trade as a driver of innovation. Intellectual property is now a regressive device to suck reparations from the entire world into the centres of innovation and the companies which control them. For example, Microsoft vacuums rents from the whole world because it was smart enough or lucky enough to buy a monopoly on a sub-standard PC operating system in 1980 (Stone 1997). Australia cannot beat the US in this game: in 2001, to the best of my understanding Australia registered 1270 patents internationally, the US 87,606 — a factor of 68 times.

The A-USFTA's proposal to extend copyright from 50 years to 70 years donates not only 20 years of free rents but a 20-year monopoly over those rents to US corporations and disfavours free expression and free trade. It benefits not the creators but their estates or corporate inheritors. This is egregiously not in Australia's national interest.

For the year after John Howard opened JDS Uniphase's advanced communications factory in his electorate in April 2001 with considerable optimism, it reportedly generated \$112 m in exports and \$500 m in economic activity. In July 2002 it was announced that the facility would shift to China and the intellectual property, of Australian origin and *generated largely at public expense*, would shift offshore too (Crowe 2002). Footloose US-based capital, sucking economic juice out of Australia's labour and creativity, will be a feature of the A-USFTA.

### **Compensation for Regulatory Restrictions**

The A-USFTA sensibly does not allow investor-state litigation, but by envisaging retaliatory action against "measures equivalent to expropriation or nationalisation" (Article 11.7 cl.1), and collapsing these into the term "expropriation", it perpetuates the illegitimate conflation of *regulatory restrictions* upon business activity using government's police powers with *dispossession of ownership*. In this section I address this property rights question from a theoretical point of view.

It is a long-established fundamental principle of law in Australia that while compulsory transfer of physical property (e.g. land, goods) by the state warrants compensation, regulatory restrictions on how property can be used generally do not, although it is open to the legislature to provide for this in a given case. It cannot be otherwise, for several reasons.

First, public interest. It is against common sense to argue that the regulatory environment must be frozen in time. Plans and regulations which were quite splendid for their era can become outgrown as a industry or district develops or as previously unrecognised social or environmental dysfunctions press themselves into consciousness. Cumulative effects may have only recently crossed a threshold of tolerance.

By even raising the prospect of compensation the FTA does public administration a disservice and in fact regresses to a position taken by almost no state in the world except within the US.

Even a remote prospect of having to fork out compensation weakens regulation. If governments face demands for compensation whenever a new regulation is introduced or the duty of care strengthened, they will avoid making new regulation. Quality of life will suffer, a possibly sub-optimal pattern of industry development may be entrenched (perhaps indefinitely) and the interests of the many will be subordinated to the enrichment of the few. The device will work in an anti-progressive manner to stave off collapse of declining or old-economy industries. The experience of the State of Oregon, USA, is salutary. Upon passage in 2000 of its Measure 7 which would require governments to pay compensation to any person whose property was adversely affected by environmental regulation, public interest regulation virtually ceased and 'regulatory chill' descended, as it has done under NAFTA.

### **DFAT Modelling**

I commend the Committee for commissioning its own economic analysis separate from DFAT's tainted consultancies. However, all modelling is based on assumptions and is only modelling, not accounting. The Productivity Commission's general equilibrium modelling derives from neo-classical economics including its notion that free markets will bring an economy into balance, if only the correct policy settings are in place. Features of most general equilibrium models are that they lack an equity or social justice dimension and assume that the gifts of nature come free. The mechanical conception which this brings of the economy is too linear, too a-political and too dismissive of the ecological limits to growth to reflect reality. However, modelling can be a useful aid if its limitations can be kept in mind.

### **Economics' Abysmal Track Record**

Since the advent of Thatcherism in 1979 and her support for US economist Milton Friedman's monetarist theories, mainstream economists in Australia have successively promoted the certainties of a number of theories: the need to control the growth of M3 money supply, rational expectations theory, twin deficits theory, the notion of a Non-Accelerating Inflation Rate of Unemployment (NAIRU) and the Efficient Markets Hypothesis (Toohey 2004). These were mainstream theories applied with enthusiasm by Treasury and/or the Reserve Bank as official policy. *Nothing is heard of them now* as economists have admitted that the causal relationships which underpinned these flights of fancy were weak or non-existent. This is a consequence of economics' reliance on unrealistic assumptions. Nowadays the notion that governments must balance budgets is also rapidly heading for oblivion. And it is now well established that given capital mobility, exchange rates do not adjust to neutralise current account deficits (Palley 2003). *The Senate Committee should not assume that there is any more substance to the contemporary supposed causal connection between economic prosperity and free trade.* Nor between prosperity and free investment: as the Commonwealth Parliamentary Library has pointed out, "The case for free foreign investment...at best, is an argument by analogy with that for goods and services." (Richardson 2004).

## THEME 6: ANALYSIS

Good policy analysis requires more than just a serviceable theory and honest evaluation of evidence. To mention only a few other features: it requires multi-disciplinary intuition; trend analysis; and in-depth understanding of other international participants, including an identification of who profits from the proposed initiative. In this section I pick out and critique a few relevant features of the Government's policy analysis.

### DFAT's Myopia

DFAT seems unable to comprehend that there is a case against liberalised trade. It is worth listing some instances of its blindness to differing points of view, as these instances by themselves demonstrate a deficiency in analytical capacity or in honesty, or both.

1. DFAT's Corporate Plan (2002) includes two graphs showing the destination and volume of Australia's *exports*, but no comparable figures showing *imports*. In the 20 years to 1998, it trumpets, exports have grown from 14 to 20% of GDP, but it omits to mention that this is regaining only the percentage that obtained in the late 1940s and early 1950s (ABS 1999); that all but three industrial countries have higher shares; and that imports have also grown.
2. At meetings of the Parties to the Convention on Biological Diversity in 2002-4, Australia took the reactionary step of objecting to 15 Guiding Principles on avoiding the impacts of alien species, on the grounds that they might conflict with obligations under trade agreements (ICTSD 2002, 2004). It is widely agreed by scientists and governments that the invasion of Australia's ecosystems is one of the major threats to Australia's environment, if not *the* major one. Yet DFAT'S policy in this arena is distorted by its determination to elevate trade above all else, so much so that it is prepared to make a spectacle of Australia in front of other countries who wonder what has happened to cause such a disconnect between the threat facing the country and its negotiating position. The pre-eminence of trade is obvious in the 2003 White Paper (Clth 2003:68).
3. DFAT's publications repeatedly laud the virtues of free trade and international competition, notably the benefits to *consumers* from low-priced *imports*, and the benefits to *producers* from high-priced *exports*, but fail to declare the necessary corollary, that producers suffer from imports priced below their own cost of production; and that consumers suffer when their children can no longer find production jobs. There are so many examples of this myopia that just three will suffice: DFAT (2004:2); *Open Markets Matter: The Benefits of Trade and Investment Liberalisation*; the country-specific reports of its privately sponsored Economic Analytical Unit).
4. DFAT misunderstands the role of credit in a modern economy. Its assertion that "Foreign investment...enables Australian businesses to access the capital required..." (2004:3) betrays mercantilist thinking, and overlooks the alternative method of raising nation-building capital domestically out of promises, either by private banks or the state.
5. It is likely that the US will also sign an FTA with many of South America's low cost countries, further undercutting Australia's farm and other producers. As each new FTA comes into force, Australia's preferential position deteriorates further. In public affairs, no reform ever proceeds according to plan: new initiatives are overlaid incrementally on the existing tapestry, with no grand design and no grand designer. For that reason scenario planning (of the kind that reportedly convinced the South African Government that apartheid was doomed) can help to avoid follies but seems to be missing from DFAT's published analysis.

Trade Minister Mark Vaile admitted (2002) that he had strengthened the trade expertise of DFAT which "nowadays, is a much more trade oriented organisation" with 60% more officers devoted exclusively to trade issues than at the Uruguay Round in 1995. Better to appoint a few scientists, historians, policy experts, environmentalists and geographers to deepen DFAT's analytical skills.

### Ironies and Paradoxes

DFAT proclaims (2004b) that this FTA signals "our strong support for trade liberalisation". But this is humbug. By definition an FTA establishes a trade cartel which preferentially excludes third parties (R Garnaut 2003). DFAT cannot reasonably claim that there are benefits in global integration while also claiming that an agreement designed to

discriminate against the rest of the world in favour of one country (Costello 2004) will also bring comparable benefits.

Oxley (2003a) asserts that the expectations of the manufacturers of the US to expand exports to Australia by \$US1.8 bn *and* the expectations of Australian farmers and manufacturers to increase exports to the US by \$2 bn are both valid. This can be so if other domestic firms or other countries proportionately lose a share of this trade; or if some goods cross the oceans twice (e.g. once as grain then again as lot-fed meat); or if similar produce is exchanged (e.g. fruits in alternating seasons). None of these options is necessarily going to help Australian producers overall, though they may be profitable for individual firms or industries. Farmers in particular are misled, for there is a well-known inelasticity (Engel's Law) in the upper quantum of food that people can eat. In other words, the A-USFTA is about elbowing competitors out of the trade.

### **DFAT's Cronyism**

My research has led me to conclude that DFAT has failed to fulfil its duty to the Australian public to act as an independent professional and non-partisan centre of excellence in trade policy. There are three main dimensions to this incapacity.

#### ***Political submissiveness***

In my dealings, DFAT officers have been invariably polite and it may be no reflection on them that their portfolio is politicised; it may be due to incontrovertible directives from the Minister. To be independent, a department needs not only internal capacity but also permission to exercise it. If either is lacking, my point is proved, regardless of who is responsible.

Of course, it is not possible for DFAT to publicly contradict the Government. Once the Government announced on 14 November 2002 that it was anxious to sign an FTA with the US; and indeed once Cabinet's decision to that effect in late 2000 became known within the public service, DFAT could not publicly support an opposing view. Ultimately, however, the Secretary is the custodian of the Department's capacity to evaluate policy issues on their merits and is accountable for the quality of the materials that it publishes in its name.

Either acquiescence is deeply established or DFAT is analytically unable to discern the genuine intellectual and empirical case against free trade. Both are serious charges.

#### ***Analytical incompetence***

By the Westminster model under which Australia is governed, it is the role of a public service department to both serve the government of the day and act as a centre of professional and policy excellence in its portfolio affairs. Given that the Government — not Parliament — has responsibility for signing international treaties, DFAT has the responsibility for in-depth policy analysis, evaluating the issues in the light of evidence and submissions and crafting agreements which protect the public interest. To do this has been made difficult by the Government's prior public commitment to an A-USFTA, but this has only made DFAT's partisan-independent role more indispensable.

Even if DFAT has been dumped in an unenviable position by the Government's prior commitment, an objective DFAT could acknowledge the Government's prior decision but could still identify genuine points of theoretical and policy contention and evaluate them.

#### ***Regulatory capture***

DFAT admits (e.g. in its A-USFTA Briefing No. 2, 2003) that it has consulted "a wide range of individual *industry* bodies...". (emphasis added). Progressive NGOs are conspicuous by their absence from the list of bodies consulted.

Worse, DFAT commissioned the APEC Study Centre to run an analysis of the A-USFTA. The Centre is chaired by Alan Oxley, who is also Director of the AUSTA, a business lobby group with some 17/29 members being international corporations. It is unethical of DFAT to commission advocacy material from only one side of the ideological 'divide'. It is even worse to commission this paper from a group run by a business lobbyist, to give the consultants "considerable assistance" (as the report's "Foreword" admits), then to pretend that this is dispassionate strategic analysis. If this happened in an Asian country, DFAT would be entitled to label it 'crony capitalism'.

In its National Interest Analysis (2004b), DFAT reports that two commissioned studies concluded that there were substantial direct and dynamic benefits. This is deceitful, for one of those studies was signed off by a business lobbyist for international corporations (Alan Oxley); the other was based upon a low-rated Australian dollar and complete

liberalisation which won't happen; and a third report which found *negative* effects is not mentioned. DFAT has not expunged its obligations in this by re-commissioning CIE.

### **Economic Efficiency and Resource Efficiency**

In economics, 'efficiency' refers to capacity to market a good at a lower price. In common language, efficiency refers to capacity to produce a good less wastefully. The difference in meanings is not just semantic but goes to the heart of the flaws in trade policy. For example, although the transport between countries of similar goods produced by near-equally competent suppliers may be economically 'efficient', that is *profitable to the traders* (partly a consequence of reduction in transport costs through containerisation), it is wastefully 'inefficient' in use of resources. Free trade is not about efficient allocation of scarce resources in any material sense, but about diverting profits to the traders. The apparent efficiency is a fiction of accounting (Palley 2003). Oil is the resource most illustrative in this debate.

### ***Peak Oil***

There is wide agreement among expert petroleum geologists that about half of the world's readily accessible oil reserves having been consumed. Beyond 2010, it will become increasingly difficult for suppliers to pump oil at a rate sufficient to sustain modern industrial societies. This factor alone places an imperative upon avoiding the waste of fuel by flying and shipping goods around the world.

Economics teaches that as a limited resource becomes scarcer, prices rise to moderate demand and to stimulate the production of alternatives, so that an absolute shortage does not arise. This theoretical notion has been comprehensively falsified by post-War experience of oil stocks and prices. As extractions of timber and fisheries have shown, exploitation of finite natural resources usually continues without serious check by the pricing mechanism until the resource collapses. Oil reserves are not about to 'collapse' but the era of cheap oil is now over (Campbell 2002).

### ***The era of cheap oil is now over***

While it is theoretically and loosely true that prices fluctuate according to supply, supply is not a simple index of physical scarcity. Both supply and demand of oil have been complex products of wars, global and domestic politics, sanctions, domestic taxation, price support and capping schemes, exploration subsidies, cartel or governmental agreements to quotas on production, gambling by futures traders and market jitters. Also, estimates of reserves are widely falsified to increase leverage in OPEC negotiations.

The rates of peak then decline of oil and gas fields vary greatly. Petroleum geologist Dr M. King Hubbert predicted in the mid-1950s that US oil production would peak in 1970. As late as 1970, he was widely scorned for being 'so wrong' (Simmons 2003). US oil production peaked in 1970 (Hall et al 2003). He predicted that world oil production would peak in about 2000. World annual extraction is probably plateauing now, one authoritative estimate (Ruppert 2003) being that the peak rate arrived in 2000. By 2007 Britain will be importing oil, as its North Sea fields will have been nearly depleted (Ruppert 2003).

In the wake of the war-inspired embargo on production commencing in October 1973, prices for crude oil more than tripled from about \$US3 a barrel to above \$11. The Western consuming countries reacted with policies to prevent rising prices from hampering economic growth: in other words, to prevent the price mechanism from reflecting scarcity. In the long run, such a consumption-driven approach is economically corrosive because it discourages redesign of processes and machinery to improve energy efficiency — such as jettisoning needless trade as a policy objective and opting for local self-sufficiency. Just as an obsessive focus on narrow competitive efficiency within Australia through deregulation of the dairy industry saw no problems in transporting fresh milk daily from Victoria to Queensland, so a narrow focus on swapping goods with the US for marginal book profits to individual private companies neglects the more fundamental macro-economic issue, being that trade wastes resources.

Australia passed its peak rate of production of oil in 2000 (Wyatt 2002) and is now dependent on the willingness of Muslim Indonesia and Muslim Middle East to keep its oil umbilical cord open. Yet the federal Government has been subsidising the consumption of fuel (through, for example, the diesel fuel rebate and massive road building programs). A conversion to gas hardly even delays this scenario, let alone nullifies it, for gas will be exhausted rapidly if transport vehicles are converted. An industry spokesman has said that Australia had enough gas to last "at least the next two decades", a remarkably short horizon for economic planning (AAP 2003).

There is no indication in the A-USFTA or its supporting documents that DFAT is aware of the looming peak in oil production and the vulnerability that this profoundly trade-affecting phenomenon places upon Australia's economy.

The simplest explanation for this blind spot is that mainstream economics does not recognise an absolute scarcity of resources: the price mechanism is assumed to cause a seamless transition to an alternative. However, no practicable alternative is yet in sight; and pricing will not actually create new stocks of finite raw materials. It will simply act to restrict access to them to those wealthy individuals and nations that can afford to pay — or have the military muscle to annexe the producing countries. As an economic strategy, this is myopic. As an exercise in policy analysis, DFAT's failure to factor the looming oil peak *by itself falsifies* their advocacy of international trade.

*Oil-fuelled trade cannot continue to grow, for geological reasons, regardless of economic argument about the price mechanism and even without factoring in greenhouse policy.*

### **Consumers are also Producers**

To date, the producer classes which have suffered most as prices have fallen because of free trade have been manufacturers (who have responded by moving offshore or going out of business) and farmers (who cannot move and who have in Australia been staying in business through increasing their debt). Low prices for producers mean less investment, less labour employed, fewer goods and services purchased. If this deliberate hollowing out of an economy is beneficial, then the meaning of 'economic progress' is turned on its head. This loss of vigour bears unfairly upon rural and working people, as their job prospects, wages and security evaporate. 'Those jobs have disappeared forever', the (salaried) commentators have pontificated.

In any case, it is a fiction that the best interests even of consumers lie in reducing costs. Low prices inhibit craftsmanship and quality. Under severe cost pressures firms cut corners with product standards or after-sales service. The urge to cut costs to meet international market prices forces down returns to workers and communities and starves the public goods (public services) that are generated by (and nourish) a prosperous workforce. It is now frequently difficult to buy spare parts for manufactured goods, as importers of global brands do not even hold inventories in Australia. Low prices encourage planned obsolescence. Low margins work against research and development which in any case is generally under-provided by the market. Profit or the expectation of future profit is the basis for future investment and a major source of material progress in a capitalist economy. Parliamentary Secretary Sharman Stone (2003) in referring to corporate competition within Australia, has lucidly expressed this in the following terms:

"A community that pays less than the total cost of production, in particular, for food and beverages, will ultimately pay the price through degraded natural resources and human capital. ...economic, environmental and social sustainability is under threat when retailers use their market power to force prices to suppliers close to or below their full cost of production."

These negative effects are worsened when exports face subsidised competition in the trade partner country, but they arise even in an honest market as a nation orientates its education system, its industry planning, its capital investment and its taxation system towards export rather than domestic consumption and toward attracting or holding foreign investment.

A-USFTA will extend this beggar-the-producers policy to services industries and the professional and administrative classes. For this reason, many more consumers will also find themselves classified as producer-victims. While low prices enable them to buy more, low prices mean that they receive less for their labour, or are forced out of employment altogether as US-based service providers elbow Australians out of production here. The notion that Australia can improve its economy by sourcing services offshore has long been promoted by DFAT (*e.g.* EAU 2000) but is anti-intuitive. 'Costs saved' means 'investment forgone'.

### **Fiscal Costs**

The implications of the A-USFTA on taxation is scarcely explored in the official documents but could be profound. There is already a significant leakage of corporate taxes away from Australia under current arrangements; harmonisation under an A-USFTA together with presumed increases in intra-firm transfers could worsen this trend.

A-USFTA will result in a loss of tariff revenue of up to \$450m in year 4 (DFAT 2004b). This means that exporters must make up more than \$450m even to get to square one, even assuming that the US does not increase its exports here at the expense of Australian producers.

The real, certain losses of tariffs and taxes must be deducted from the assumed gains calculated by the models.

## Let Australia Learn from NAFTA Experience

Since NAFTA came into operation on 1 Jan. 1994, there has been a great deal of retrospective analysis in Canada on whether the agreement was beneficial to Canada. Given the many similarities between Australia and Canada in cultural origins and form of government, Australia could learn a great deal from Canada's experience. However, an evaluation of Canada's experience seems to be missing from DFAT's analysis. In my bibliography, I have included quotes from one recent summary (Campbell 2003) for the information of the Committee.

I am a member of POLCAN, an email group with 1755 scholars and practitioners interested in Canadian public policy. In June 2003 I asked the list to advise of sources analysing the Canadian experience with NAFTA. I received about 21 responses. They almost universally cautioned Australia against entering into an FTA with the USA.

Mexico's experience of NAFTA since 1994 should also be sobering. Since 1996 US farm income support subsidies have reportedly been based on rather than regulated floor prices (Schubert 2003), a program which allows agribusiness to lever down prices paid to US farmers, making the products competitive with Mexico's. Mexican small farmers are being forced off their lands, unable to compete with government-subsidised imports from the USA's mechanised corporate farms. If Mexico, with the advantages of low labour costs and proximity (low transport costs) is unable to gain traction against US farm subsidies, it is difficult to see how Australia can do better.

### Summary of 'Analysis'

These analytical deficiencies are so egregious that it is difficult to believe that they arise solely from incompetence. One is forced to the inference that DFAT's professional independence has been compromised and it now appears to an outside observer to be a supine mouthpiece of a Government which is co-opting the policy apparatus to serve what it sees as its partisan advantage.

It is difficult to disagree with Senator Cook (2004) who said that the debate in Australia has been formed from slogans, not analysis. The prime responsibility for this disserve to the national interest lies with a supine DFAT and an ascendant Government obsessive about its relationship with the US.

## THEME 7: POLITICAL ENDORSEMENT

The Government rushed to endorse this FTA even before it had been negotiated. Worse, it did so with one-sided enthusiasm, listing the benefits of an A-USFTA but not the potential disbenefits or risks (Clth 2003:91). This is boosterism, not policy analysis.

Despite the rapidly accumulating public and expert criticism, DFAT's public enthusiasm for an FTA continues to the present ("...an enormously beneficial, landmark trade agreement..."; "will deliver lasting benefits to generation of Australians" - 2004:4). Senator Cook (2004) has said that the Government has met the Opposition's questions about A-USFTA with "uninhibited boosterism".

I urge the Senate to consider much more carefully than the Government seems to have done the effect on developing countries of signing this agreement. As Senator Cook lucidly expressed it (2004), the Third World agricultural exporting countries have looked to Australia as an advocate for them via the Cairns Group in gaining access to corrupted markets in the First World. By signing the A-USFTA, Australia is in effect tolerating *and legitimating* the gross income support schemes and quotas which inhibit access to the US market, all while continuing to preach to Europe and Japan that it must dismantle *their* subsidies. This is not only hypocritical but a betrayal of the interests of the millions of people in less articulate developing countries it has been representing. That Australia has abandoned the opportunity to speak to its great and powerful friend on behalf of the Third World when it could see a chance of a profit is reprehensible and could tarnish its international reputation long after the US's global hegemony has faded into history.

## THEME 8: NATIONAL INTEREST

### Definitions

'National interest' has been invoked publicly and often in 2001-4 during the public debate over the A-USFTA, but both supporters and critics have used it without specificity and the debate sheds little light on any enduring standards.

'National interest' is a term poorly conceptualised in Government publications or in the public administration literature. In this section I briefly refer to the way that the Government in its published papers has viewed national interest, then establish some objective criteria, then critique DFAT's and A-USFTA's interpretation against those.

I define national interest as the stake citizens have collectively in foreign affairs, that is, contrasted with domestic 'public interest'.

### **Realism and Idealism in Foreign Affairs**

References to the term 'national interest' or *raison d'etat* first appeared in fifteenth century Machiavelli (Roskin 1994:1) or sixteenth-century Italy (Meinecke 1957).

Traditionally, approaches to international relations have been classified into two: Machiavellian *realism*, the view that foreign affairs are a matter of interests and power, and that stability lies in either unchallengeable dominance or in balancing power; and *idealism*, that foreign policy should be built around moral and legal principles and that stability is achieved through multi-lateral co-operation (Morgenthau 1948 cited in Dalrymple 2003). Idealists tend to elevate the role of the UN, realists to dismiss it as weak or irrelevant. This dichotomy is somewhat simplistic but in the interest of brevity can serve for this paper.

The term national interest is used in print in two distinct ways: one of realist ancestry, being narrow self-interest; the other as also embracing multi-lateral obligations, that is, as 'enlightened self-interest'. The narrow sense tends to contrast national interest with other countries' national interest, which suggests some tension between them. The broad sense sees all nations as fellow-travellers on spaceship earth.

The broad, idealistic approach leads to foreign policy objectives such as 'How can we help all peoples to reach their potential?'; the self-interested approach leads to objectives such as 'How can we make a profit out of them?'. Former Foreign Minister Evans (1989:11) spells out a classic idealistic view: that a democratic community expects its government to pursue justice, human rights and development world-wide, "if for no other reason than to maintain our own sense of worth in pursuing ends that are inherently valuable".

It is of course a fallacy that any government will be entirely consistent or unitary in its outlook. Australia can preach democracy and self-determination for developing countries; yet it can through the IMF and World Bank force the same countries to open their economies to Western corporations. Also, we look in vain for consistency in the US: "The US pursues trade ambitions through multilateralist, bilateralist, unilateralist channels and the NAFTA bloc (which it dominates) simultaneously, with consistent disdain for consistency..." (Jones 2002).

Australia's commitment to multi-national forums of governance has varied over the decades, Labor governments tending to support multi-lateral institutions and conservative governments preferring to align themselves with a big power. But the major approaches of foreign policy have not seesawed with each election, according to Gyngell & Wesley (2003:59). The two main changes in direction in foreign policy post-WWII followed the 1972 election of Whitlam and the 1996 election of the Howard Government "which abandoned the post-Whitlam bipartisan consensus to focus foreign policy more openly on the national interest [*i.e.* defined narrowly] and link it more directly to the domestic political agenda."

In 2003, the Carnegie Foundation's magazine *Foreign Policy* and the Center for Global Development created the first annual Commitment to Development Index, grading 21 wealthy nations "on whether their aid, trade, migration, investment, peacekeeping, and environmental policies help or hurt poor nations." (Foreign Policy 2003). The magazine presented two reasons why the rich should help the poor: "First, helping impoverished people worldwide build better lives is the right thing to do..."; and "Second, what rich countries do to and for the rest of the world comes back to affect them... Call it trickle-up economics...", or as it is widely known, enlightened self-interest. Worst ranking in the index is the United States, followed upwards by Japan then Australia. The editor argued that "If the richest of the rich do not lead, then no one will."

This poor ranking for Australia contrasts with the popular perception of the country as generous and compassionate.



## Official Published Conceptions

DFAT's National Interest Analysis is appallingly shallow. Most of it consists of an itemisation of the provisions of the A-USFTA, with the only real articulation of Australia's national interests being that it is in our interests to more closely integrate with the US economy and strengthen our political relationship.

The shallowness of the analysis is consistent with the interpretation that it is politically and ideologically driven, by both an uncritical embracement of neoliberal economics and by a desire to align foreign policy with that of the US.

The most comprehensive available official exposition of national interest, the 2003 White Paper *Advancing the National Interest*, is hardly any better. It is a disquieting read. It starts out by defining Australia's national interest as 'the security and prosperity of Australia and Australians' (p.vii). Governance, social justice, treaty obligations and environmental protection hardly rate a mention. As mentioned by FitzGerald et al (1997:13) in relation to the 1997 White Paper which used similar language, this conclusion hardly defines Australia's national interest at all, as all nations aspire to security and prosperity (Gyngell & Wesley 2003:26). This report is theoretically and logically shallow, a "values desert" (Preston 2004).

The proposed A-USFTA is lauded (p.89-91) - and this was before the public submissions on that treaty had been evaluated, before the first negotiating team had arrived on our shores, before the estimated economic gains plucked out of their models by the Centre for International Economics (ACIL 2003) had been contradicted by peer review and importantly, before the date for submissions to the Senate Committee's previous inquiry had even closed. These positions are consistent with the contemporary political positions taken by the Government at the time, but are hardly calculated to help Australia's negotiating position. They suggest that the Government has viewed the negotiations as primarily a political show, or, in other words, that the national interest is viewed as consisting simply of aligning Australia's foreign policy with that of the US.

### **Security outlook**

The 2003 White Paper departs (e.g. p.xvi) from a long-standing bipartisan position in Australian politics that strategic and trade issues would be regarded as separate arenas (Beeson 2003; Costello 2004). It welcomes the opportunity to use trade as a device to draw closer to US foreign policy. This is potentially profoundly significant, for reasons that will be explained.

There is a gaping chasm between this fusion of security interests and trade with the Government's position on linking trade with human rights. The 2003 White Paper "explicitly rejected the linking of human rights issues with trade issues" (Goldsworthy 2001:26). By contrast in 1997 the Government "refused to sign the Framework Convention on Human Rights that the EU routinely attached to its trade agreements, and which more than a hundred countries had already signed. ...a unique compromise declaration had to be negotiated. Why, some European officials reportedly wondered, should a democratic country take so rigid a stand?" (Goldsworthy 2001:27). Papadakis (2001:45) refers to the "sharp retort" of the President of the European Commission when he heard of the "intemperate language used by John Howard in attacking the Europeans for wanting to include a legally binding human rights clause in the agreement."

Security is elevated to a primary concern time and time again. The specific transnational crime which receives most prominence (p.19,46) seems to be, in line with contemporary priorities of the Government, people-smuggling while tax evasion, transfer pricing and jurisdiction-shopping by corporations is scarcely mentioned. The inherent contradiction between the Government's support for globalisation and the more open environment which globalisation creates for criminal networks in the trade of arms, drugs, intellectual property, people and money (Nam 2003) is not mentioned.

### **Environmental outlook**

The silence of the White Paper about environmental matters is remarkable. There are only passing references and no substantive treatment. There is no substantive mention of Australia's impact on the global environment, such as the logging of tropical rainforests by Australian companies to supply Australia's house-building industry. Nor is there any reference to the effects of other countries' policies and activities on Australia's natural environment: examples being oceanic pollution, over-exploitation of international fisheries, whaling and global air pollution from forest burning in Indonesia.

There is no recognition that there may perhaps be biophysical limits to the earth's capacity to support production and consumption. The plainest example of this blind spot is the treatment of energy. Australia is portrayed as a reliable supplier of energy without apparent reference to Australia's own strategic needs for energy in the post-peak oil era (Clth 2003:126; Fleay 1995:32ff).

### ***Cultural and ethical values***

The 2003 White Paper is virtually devoid of cultural or ethical content. There is little analysis of global or regional trends in demography or democracy or the attitude that Australia should take to national movements for self-determination.

### ***Economic consensus***

Pursuit of trade and economic liberalisation is elevated throughout the report to a goal rather than being a tool to achieve national goals. The paper seems to assume that free trade will somehow open other countries' markets and Australian exports will increase, but not our imports. The seven pages of optimistic graphs in Appendix 2 overlook the fact that even in economic theory the full benefits from trade arise only if all displaced labour is employed elsewhere in the economy, a pre-condition which has not applied for a couple of decades.

Prosperity is portrayed as dependent upon or equivalent to economic growth. Growth is deemed to be dependent upon free trade and economic liberalisation, as if there are no other factors and as if a country cannot or should not be allowed to establish a sunrise industry behind protection. Political freedom is conflated with economic liberalisation (p.2) and there is no indication that globalisation is viewed as anything other than the spread of neo-liberal economics.

### ***Conclusions about the White Paper***

The contrast between the White Paper's single-minded economic globalisation and its unapologetic environmental and human rights isolationism is stark. It is also intellectually incoherent, except inasmuch as it is evidence that a narrow economic fundamentalism has overtaken other scholarly and interdisciplinary understandings of global affairs.

The White Paper is ethically amoral, environmentally neglectful and economically narrow. As FitzGerald et al (1997:15) argued, in relation to the earlier 1997 White Paper, "The national interest also involves more complicated matters of identity: the question of who we are and want to be as a nation and what we stand for." If the 2003 White Paper truly does spell out Australia's national interest, then that national interest is based on the self-interest of consumers in gaining cheap goods. Other countries are seen as simply a source of profit. This is unworthy of the lucky country.

Also, in Camilleri's words (2003:434), the White Paper does not explain how to operationalise its conception of security or economic interests. For example, knowing that national security is the goal does not lead to clear prescriptions of consequent policy. There is no analysis of the causes of Islamic terrorism and what if anything Australia should do to snuff out these causes, other than join the US' war on terror.

Who wrote this report? The tone of the 2003 report is political rather than analytical. It reads as if it had been written by the Minister's public relations officers rather than the Department, as Makinda (2003) states, "like a rough draft crafted from ministerial press releases". If so, it may be unfair to blame DFAT.

### **Foreign Investment and National Interest**

The term 'national interest' has become widely known because of its appearance in the *Foreign Acquisitions and Takeovers Act 1975*, which gives the Treasurer the power to block proposals that are determined to be contrary to the national interest. There are no criteria in the Act by which the Treasurer must evaluate the evidence; and no published policy to guide his or her decision. The Foreign Investment Review Board's website states simply that "The Government determines what is 'contrary to the national interest' by having regard to the widely held community concerns of Australia." (FIRB 2002).

In 2000-01, the Government approved of all but 46 out of 3347 proposals for foreign investment in Australia, a success rate of 98.6%. However, many of the deals were subject to conditions.

The 2003 paper views foreign investment through rose-coloured glasses. There are no criteria to distinguish capacity-building foreign investment from asset-stripping. Companies invest in the hope that they will eventually gain more from the country than they contribute (though 'gain' can include systemic advantage as well as just profits). Whether

the incoming company brings and leaves infrastructure or other capacity that Australia did not have *and could not generate itself* is not a test that the Foreign Investment Review Board appears from its published guidelines to apply in evaluating applications (FIRB 2002).

A written inquiry by this author to the Treasury Department as to whether there were any criteria for determining the 'national interest' in foreign investment cases elicited the following response (Aldridge 2002):

*The presumption is that foreign investment proposals are generally in the national interest and should go ahead.*

This view is confirmed by the unqualified reference of the Board to "the strong economic benefits to Australia that arise from foreign investment" (FIRB 2002).

This is a remarkably indiscriminating stance. This approach subordinates to the concept of foreign investment a range of other possible considerations — industry policy, employment policy, defence policy, human rights record, environmental responsibilities, regional development objectives, to name a few.

If A-USFTA is signed with this provision, other countries will expect similar privileges. Japan will invoke the provisions of the 1976 Nara agreement (Costello 2004). The current foreign investment regime will collapse. If this is what Australia is to have, let it be the subject of a focused parliamentary debate.

### **The United States' View of *its* National Interest**

Condoleezza Rice (2000) published a conception of the national interest while she was an academic and adviser to candidate George Bush Jr., before she became his National Security Adviser in office (2001). Her conception is power-centred and unilateralist and portrays "freedom, markets and peace" as conditions that will flow automatically if the US pursues its own national interest. "American values are universal"<sup>2</sup> and that "...the United States is the only guarantor of global peace and stability".

Some of these conclusions would seem to represent a triumph of hope over experience, for as McGeough (2004) notes, "Apart from West Germany and Japan, only two of the 16 US-led efforts in nation-building in the last century — tiny Panama and Grenada — continued to function as democracies 10 years later."<sup>3</sup> Rice's conclusions are consistent with Woodruff's (1975:xii) observation that "...most Americans are completely unable to see their own history in a world context." They believe "...that they stand outside history" (Woodruff) and that their hegemony is historically unique, because it is both based on overwhelming material and military dominance and because it is benign. This profoundly misunderstands the nature of legitimacy, which is an inherently collective phenomenon: "...auto-legitimation is impossible" (Reus-Smit 2003:426).

Rice's realist view was reflected in the President's 2002 *National Security Strategy* (NSS 2002; Rhodes 2004). The Strategy spells out that the US would use its military power to establish and maintain hegemony over the rest of the world with a view to guaranteeing its own security and to building "liberal" societies. Complying governments would be rewarded and others punished, if need be by military intervention even of a prophylactic nature. The document is suffused with US exceptionalism. The tensions between imposition by force of 'liberal' values and the right of peoples under a 'liberal' conception of human freedom to self-determination is not acknowledged, let alone reconciled. A less prominent tension is between 'free' markets and political freedom or democracy, which are conflated in the paper, but which in practice may remain very separate. Indeed, China and Vietnam are examples of countries which are adopting market-based economic policies yet remain largely politically unfree in terms of democratic form (Bell 1997:64).

There is no evidence in this "aggressive and frighteningly naive document" (SMH 2002) that the US intends to elevate

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<sup>2</sup> The US is not the only country to make claims of this kind. UK Prime Minister Tony Blair (2002) opined that "Our values aren't western values. They're human values, and anywhere, anytime people are given the chance, they embrace them." Huntington claims (1993:40, 41) that this is profoundly wrong as numerous Western concepts such as individualism and the separation of church from state have little resonance in other civilizations. He quotes Triandis (1990) that a review of 100 comparative studies of values found that "the values that are most important in the West are least important worldwide."

<sup>3</sup> Wallerstein (2002) comments that the only two countries in which a US military intervention since WWII has achieved its objectives were two that lacked troops. This demonstrates the limits to American military power.

achievement of other countries' national interest as one of its strategic objectives. National interest is defined by the administration primarily in terms of the US' national *security* and prosperity. This should give pause to other countries who identify alignment with US foreign policy as in *their* national interest. This fundamental tension is not acknowledged or resolved in the Australian 2003 White Paper.

Woodruff (1975:4,179-81) notes that the US's confidence in its capacity to solve any problem is deeply rooted in its history, which has married Christian mission with worldly progress to produce a self-righteousness that colours its foreign policy indelibly. This is consistent with Woodward's view in his insider's exposé *Plan of Attack*: President Bush is convinced that he is a servant of God and history (Cohen 2004).

Kane argues that the US central myth has been "of the essential and compatible union of American power and virtue, but that a deep fissure has increasingly opened between them." (2001, quoted in Tiffen 2002). American virtue has been questioned, world-wide, since Vietnam; and American power has been repulsed repeatedly since WWII (Wallerstein 2002) — in Vietnam, Lebanon, Somalia; with the Korean and Gulf I conflicts ending in only military draws.

### ***The real motives behind an A-USFTA***

Several possible reasons for US interest come to mind. Not one of these is likely to be in Australia's national interest. My speculation as to the motives may be quite mistaken, but my major point is that an analysis of these possibilities is missing from public debate and from the material that DFAT has published.

The first is that the US wants to cement a network of countries into a pact which will bind them to comply with US foreign policy ambitions. Zoellick has admitted as much (2002, 2003).

The second possible reason is that FTAs allow the US to streamline its pathways for exploiting the resources of the partner countries. Any resistance by the partner countries can be countered by threats that the price of access to the giant US market is removal of barriers to trade and investment. In this way the US can guarantee its access to the natural resources of the world. Australia is rich in natural resources. It is even possible that the main US motive is to displace China's access to the gas resources of the North West Shelf. The US faces a gas shortfall in every forthcoming winter.

A third possible reason is to lock out the US' trade competitors in Europe and Japan. Evidence for this view is that the US is not pursuing FTAs with strong European economies or Japan.

A fourth, related, reason is that the US is becoming concerned about the level of its global trade deficit (>\$US 400 bn p.a.) and wishes to even up the scales. Evidence for this interpretation is the administration's recent encouragement of a lower US dollar. If this trend continues, then the competitiveness of Australian products in the US market would evaporate.

A fifth reason explains the enthusiasm by business: the prospect of gutting social and environmental regulation. Services spokesperson Drake-Brockman has tacitly admitted as such (2002). This deregulation profits capital at the expense of community, even for those firms that do not engage in external trade. NAFTA was driven in part by a US desire to liberate its transnational corporations from irritating domestic regulations in its trade partners; and to enable them to capture maximal profits from their intellectual property rights (Clarkson 2001:3).

### **Are There Objective Standards of National Interest?**

My studies of the expressions of national interest in Australia, the US, Canada and New Zealand have uncovered no objective statement that is consistent with global norms; and no objective criteria by which national interest may be measured.

I agree with FitzGerald (2002) who notes that "The statement [Australian] foreign policy makes today is one of narrow nationalism and the doctrine of the self...it is not tempered by government commitment to wider horizons, interests beyond the self, enlargement of the liberal and humanitarian agenda, altruistic causes, high standards of ethical conduct and public policy formed out of public debate... This has been quite openly and frankly articulated in major statements by Australian political leaders."

But it cannot be assumed that this bleak outlook as outlined in the 1997 and 2003 White Paper reflects the electorate's

views. For example, the electorate has never embraced free trade ideology (Jones 2002)

Is it possible to establish some objective standards as to what is in Australia's national interest? My answer is yes. For the sake of brevity, in this paper I will do this by selecting the best expositions I have found and melding them.

One of the best enunciations of national interest I have sighted is contained within a letter dated September 2002 from DFAT. The Department wrote:

*The national interest is a multi-dimensional concept that can be categorised broadly into:*  
*(1) geo-political or strategic interests (in relation to global and regional security),*  
*(2) economic and trade interests, and*  
*(3) multi-national interests in relation to Australia's standing and responsibilities as a member of the international community.*

The first two elements — security and prosperity — are not distinctive: all countries would claim this. The third allows a distinctive Australian approach.

More ambiguously, the letter goes on to say:

*At times, and on certain issues, these interests may conflict, and the Government has adopted a pragmatic and realistic approach in prioritising the promotion of Australia's security, prosperity and values over global ideological principles.* (Gosper 2002).

In a ministerial statement in 1989 Evans nominated four main limbs for Australian foreign policy: "projecting Australia's security through the maintenance of a positive security and strategic environment in our region; pursuing trade, investment and economic cooperation in the region; contributing to global security, trade, investment and economic cooperation; and contributing to the cause of good international citizenship (Horner 1997:74). This differs from Gosper's (*q.v.*) mainly by splitting 'security' into two, and from the 2003 White Paper by the non-pugnacious and multi-lateral language of the two references to security.

Building on Gosper, Evans and numerous others, I propose the following components of national interest:

- *security*; operationalised by preventing the precursors to war in the region and by maintaining a defensive capability sufficient to deter aggressors;
- *prosperity*; operationalised by pursuing policies such as managed trade that ensure sustainable and fairly distributed economic activity;
- maintenance of its *values and sovereign institutions*; operationalised by protecting them from assaults in a globalised world by those who gain by weakening Australia's capacity to pursue the well-being of its people;
- standing as a *good international citizen*; operationalised by observing the rules of international law, abiding by the provisions of treaties which Australia has ratified;
- *amelioration of global malaise*, especially problems to which Australia contributes; operationalised by assisting other countries to achieve their potential.

The third is distinguished from the fourth in that it is mainly passive, while the fourth is activist.

'Promotion of Australian values' is not listed directly, as potentially it can lead to paternalistic swagger. However, Australia has many fine attributes (such as its capacity for improvisation and inventiveness) and many fine institutions (such as its federal structure) which could benefit other nations. They can be promulgated under the third and fourth headings.

Each of these elements and the effects on them of the A-USFTA is evaluated in turn. If the Committee wishes me to make a supplementary submission on how I derived this model, I would be pleased to oblige.

## ***Security***

Neither DFAT nor the Government seem to have suspected any downside to aligning Australia's strategic reputation with that of the global bully. Some concerns can be mentioned.

First, A-USFTA locks Australia into the US foreign policy *indefinitely*, regardless of how obnoxious US foreign policy may become. To increase its trade advantage, the US can simply threaten to withdraw some military favour if it does not receive some concession from Australia. By linking the two, Australia risks throwing away its defence autonomy.

Second, it potentially further draws Australia into the US military-industrial complex, an alignment which threatens to skew policy in defence acquisitions and lock Australia into high cost cronyist practices that are demonstrably rife in the US. In 1998 "the US Defense Secretary, William Cohen, forcefully reminded the Australian government that the alliance carried a price, quite literally—namely the cost of the technological upgrading in which Australia would need to invest if it wished to maintain full military interoperability with the US. ...reportedly...increase defence spending by up to 40 per cent (*Age*, 11 August 1998)." (Goldsworthy 2001:21). This threat of course pre-dated the A-USFTA.

An un-named Liberal Member of Parliament was quoted by Atkins (2004) as describing the US as "...the one country that can protect us...in such an uncertain world environment...". In fact the opposite is more likely. The world environment is uncertain because of anti-US sentiment. The US's hardware-based military methods of enforcing regime change are unsuited to winning hearts and minds in an era of global communications. The US has been unable to impose its will on weak, fractured Iraq despite a year of military operations and overwhelming firepower. Firepower is not the kind of power Australia needs to project its interests in the region. In Lapham's (2002) evocative words (of the US):

"...a \$60 billion missile-defence system...offers no defence against the deadly weapons (smallpox virus, dynamite stuffed into a barrel of nuclear waste, etc) likely to be delivered in rented trucks."

Third, it risks trashing Australia's reputation with the rest of the world as its patience with US global swagger wears thin. While the IMF, which is basically a creditors' cartel of international banks, forces developing countries to close down public services such as schools and health services so that it can pay their foreign loans, people suffer and blame the US for the neoliberal policies which force these injustices on them. And reportedly in Pakistan alone a million boys who cannot afford places in government schools are turning to Muslim schools for their education.

By siding with the US in its declaration of "war on terrorism", Australia has mischaracterised the terrorist attacks in 2001-4 as a 'war' requiring military response rather than a 'crime' requiring police action (Lapham 2002). This declaration was of course a windfall for the defence and insurance industries. In the 2003 White Paper, the Government correctly referred to "small, unrepresentative, sectarian groups" as the source of terrorism (Clith 2003:3), but its closeness to the US has distorted its view of the logical implications of this when framing its security response.

### ***Prosperity***

All wealthy countries started off protectionist. Australia's infant industrial economy found its feet behind tariff fences of a kind which it now seeks to break down for itself. Chang (2003) has explained this process, aptly termed "kicking away the ladder". It can apply anew to the modern high technology industries as much as it did and does for basic manufactures. An IMF report in 2000 (O'Loughlin 2000) found that the value of information and communication technology produced in Australia was less than for every other advanced economy except Norway.

The reasons advanced a century ago for the tariff show how far modern Australia has abandoned the earlier consensus as to what is good public policy. Then, protection was seen as allowing manufacturers the financial space to innovate and to develop competitive muscle; nowadays, tariffs are seen as obstructing innovation and competitiveness. Then, and especially during the World Wars, tariffs were seen as a tool for achieving self-sufficiency in manufactures in an uncertain and hostile world; nowadays, tariffs are seen as an obstacle to a US-led global economy. Then, tariffs were seen as enabling manufacturers to pay a 'fair and reasonable wage' to employees — the 1906 *Excise Tariff Act* even gave that link statutory force; nowadays, neo-liberal economists press to abolish tariffs to force wages and conditions downwards.

A century ago it was widely held that competition with imported products of underpaid foreign workers was unfair. Yes, there was a racist edge to this viewpoint, but it was more than that: Australians believed that workers were due a fair reward for their labour. Now, our trade enthusiasts rejoice at the bargains that consumers can steal by undercutting Australian labour through outsourcing goods from overseas.

### ***Maintenance of its values and sovereign institutions;***

DFAT admits (2004b) that the A-USFTA "contains commitments and disciplines on government procurement, intellectual property protection, telecommunications, customs procedures, electronic commerce, competition policy, professional services recognition, standards and technical regulations, sanitary and phytosanitary (SPS) measures, labour and the environment." This effect is stating that via a mere commercial trade agreement, the Government seeks to regulate (or deregulate) Australian society, including at State and local level, in a wide range of fields. This is a radical agenda to re-engineer Australian society. One must ask, in whose interests.

Australia's sovereignty is threatened by A-USFTA in several ways.

It is likely that by relying on its external affairs power (s.51xxix) the Commonwealth will claim legislative jurisdiction over matters that would otherwise fall largely or solely within the constitutional jurisdiction of the States. This would allow the Commonwealth to subvert the sovereignty of the States and the intentions of the Australian Constitution in two fundamental ways. First, it could force harmonisation within Australia, so hobbling the capacity for the State and local governments to innovate and explore creative solutions to problems. Harmonisation by its very nature will soften the more courageous or pioneering provisions, a manifestation of the 'lowest-common-denominator' syndrome.

Second, the Commonwealth could impose a weakening of the effectiveness of many categories of public interest regulation such as pollution controls, health warnings or labour standards. As the A-USFTA is pro-business, and the US Government especially so, then any pressure by the Commonwealth upon the States is likely to be pro-business and against the public interest. As A-USFTA seeps into virtually all sectors of the community, including distribution, professions and advertising, regulation could be vetoed by a Commonwealth Government captive to international corporations via protests from the US Government. Such a provision amounts to an extra-territorial constitution (Clarkson 2002).

I confess to not understanding the extent to which this will happen. The volume, complexity and legal particularities of the agreement are in themselves a concern. The ambiguity of the reservations is a concern.

The dispute panels deserve an in-depth consideration that I cannot give here. If a sovereign country is to be taken to court, it should be in its own High Court or the International Court of Justice, with an established jurisprudence, standing for third parties, transparent procedures and so on. Unelected trade panels in WTO style are a supra-constitutional threat to sovereignty and the national interest.

Neo-liberal policy takes as one of its givens that governments are motivated to increase their empires, their budgets, their influence. The A-USFTA falsifies this assumption. The Commonwealth proposes to give away Australian sovereignty through a loss of policy autonomy. Harmonisation of policies and regulations on corporate governance, accounting, environmental protection and public ownership of assets would inevitably mean that Australia as the weaker partner would abandon or modify its body of regulation to suit the US'. Closer alignment means that Australia will be obliged to adopt US institutions, not the other way around (Quiggin 2003). However, Australian prudential regulation, social justice law, medical insurance and environmental protection are not inferior to those of the US.

### ***International citizenship***

The Government (DFAT 2002) explains that it participates in treaty making "because it is in the national interest to do so. ... Nations... benefit from a world where interaction between countries takes place within a framework based on fair, agreed and transparent rules as agreed in treaties." This acknowledges Australia's commitment to the rule of international law and to multi-lateral negotiations (although recent actions in hectoring the UN and its treatment of refugees have belied some of these lofty words — see *e.g.* Zifcak 2003).

Most countries have committed themselves to several formal treaties which are rooted in concepts of global justice and multi-lateral cooperation, most enduringly the UN *Universal Declaration of Human Rights* passed in 1948 and reaffirmed in other treaties especially the 1993 *Vienna Declaration*.

One would imagine that Australia as a middle power in a non-European region would seek to strengthen international law and institutions rather than align itself with a single and widely unpopular superpower (Makinda 2003). Zifcak

(2003a) suggests that the Government's vehement repudiation of the UN entities' criticism and even their competence is based upon a desire to appeal to the anti-globalisation sentiment in the electorate, without conceding any ground on economic liberalisation. Loss of economic sovereignty is being displaced onto the international bodies, an exercise in wedge politics.

DFAT and the Government do not seem to have drawn any connections between global terrorism and the poverty and hopelessness which have followed free trade everywhere as global prices for commodities have been propelled downwards. This is not an accident but an inevitable consequence of policy that allows large, mobile, technologically-savvy corporations to cherry-pick resources wherever in the world they can find them, at the expense of small local firms. That is the meaning of economic globalisation.

It should be possible for DFAT to tabulate the conflicts that A-USFTA will generate with other international policy objectives and to postulate ways to reconcile them.

### ***Amelioration of malaise***

It is reasonable to suggest that a country which causes or contributes to a problem is accountable to help solve it. To demonstrate that a country is accountable for other countries' well-being, one needs only to demonstrate that a country contributes to global problems or intervenes in other countries' affairs. Both of these are easy to demonstrate. By this standard Australia shares responsibility for ameliorating, for example, the greenhouse effect, the disposal of waste from Japan's nuclear industry and the drug trade.

It would take a good deal of space to unravel the effects of A-USFTA on this dimension of national interest so I shall leave the subject there and offer to compile an analysis if the Committee so wishes.

### **Summary of National Interest**

A nation derives its international standing and indeed its very existence on the global stage from other nations. It follows that a nation's standing is considerably affected by the way it conducts itself in multilateral global forums and the sides it takes when divisions of opinion are pressed. A nation needs other actions' support to make its way in the world. In this sense the world is a global village and the fortunes of all nations are inter-dependent.

## **THEME 9: CONCLUSIONS AND MYSTERIES**

### **Conclusions**

This submission is not arguing against trade, only against simplistic free trade ideology. For a policy to be prudent, it must reflect a robust theoretical foundation and be supported by empirical evidence from those places or times that it has been applied elsewhere or previously.

The theoretical, logical and evidentiary case against free trade is compelling. Those who advocate free trade as a generic policy are, in scientific language, attempting to solve a multi-factorial equation with a single variable. Factors such as exchange rates, hidden variations in wage-price structure, environmental deterioration, availability of natural resources and political jostling are variables, not absolutes to be assumed away. But even if free trade is supported in principle, this particular agreement does not serve Australia's national interests. The only explanation for A-USFTA that satisfies the clues is that Australia is now siding with corporate power, especially US corporate capitalism, against the interests of its own producers and communities.

Australia's industries are now feeding on their own flesh. In the 1980s and 1990s tariffs were reduced to force so-called fat and lazy industries to reduce costs. Now manufacturers and farmers are being told that their costs must be reduced in order to match international prices, that is, to maintain low tariffs. This beggar-the-producer policy is about to be extended through A-USFTA to the professions, service industries, investors and administrative classes.

The A-USFTA is being presented as a gift. It is an attempt (Vaile 2003a) to lock the Australian economy into the US one, a political action with potentially profound ripple effects through Australia's foreign policy landscape. Apart from the political, social, military and cultural implications, it is economically misguided because the US economy has passed its peak. The era of cheap oil has passed leaving the US, which has ignored the signals, locked into a high-energy, high-inequality, high-environmental impact and high-debt economic model which is unsustainable. If



Australia signs an A-USFTA, it will also lock itself into the same model and will reduce its policy resilience, its capacity to devise independent policy solutions to global uncertainties, its previous progressive international reputation.

All the evidence points to a chronic loss of analytical capacity in the key public sector department to which the Australian people have traditionally looked to formulate public foreign policy on their behalf. Ultimately, this neglect of the public interest is even more serious than one dud trade agreement. For the loss of analytical capacity will infect every other trade agreement, and every other treaty that DFAT negotiates on our behalf.

A large number of countries have enough natural resources to become more-or-less self-sufficient. Australia is one. The main obstacle to robust self-sufficiency is free trade and investment, which discourage manufacturers from deepening factory capacity, stultify research, down-value corporate loyalty and distort nation-building strategies such as building public institutions.

Under free trade and investment, as in competitive markets generally, the strong become stronger and the weak fall further behind. This feature is well attested and has both theoretical and empirical explanations. It is the reason why trade practice laws to prevent misuse of market power are necessary. It explains that under the trade agreements the US is signing with other countries to open their borders to its companies, the US will enlarge its economy at the expense of its trading partners. The partners will be trapped because when faced with threats by the US to close the US market, they will be tempted to abandon the policy and legislative tools they retain to even up the odds.

The primary message which I leave for the Committee is the shallowness of so much of what is presented as argument in favour of free trade in general and this trade cartel agreement in particular. Critical, multi-disciplinary analysis is missing and those who will benefit have not been identified.

### Unanswered Mysteries

I offer some questions which the Committee might put to DFAT to explain the gaps in the analysis which it is offering in support of its A-USFTA.

1. If free trade is as universally beneficial as DFAT claims, then there must be some durable and widely applicable theory underpinning it. Obviously this cannot be the theory of comparative advantage, as that depends upon immobility of capital, which nowadays is a nonsense. It cannot be economies of scale, for that would surely convince any analyst that it would work in the US' favour. Please explain the theoretical underpinning of DFAT's pro-trade policy stance.
2. Has DFAT commissioned any NGOs or social or environmental experts, scientists or heterodox economists to produce reports on the A-USFTA? If not why not?
3. Please explain the net implications of A-USFTA for collections of taxes and tariffs.
4. There is a low complementarity in the product mix: Australia is competitive mainly in those commodity products which the US Congress is most likely to protect vigorously (Tow 2001:181, etc). And tariffs are hardly the issue. What exactly does the Government mean by claiming that the A-USFTA will lock Australia into the US's powering economy, unless this means opening our natural resources and procurement markets to US corporations?
5. Why does no comprehensive treatment of the Canadian experience with NAFTA, notably its stultifying effect on Canadian industry and on public interest regulation, appear in the published materials?
6. Given that the US is now pursuing FTAs with many other countries, notably all of South America, how can there be any net preferential access *and profitability* (McGovern 2003) in the A-USFTA to the US economy if they are signed? (It cannot be possible that under A-USFTA Australia will win at the expense of every other country which signs up with the US; and it cannot be possible that new markets will arise from nowhere to absorb the claimed increased flow of products. Trade advantage is about edging some other country or *domestic competitors* out).
7. Why has DFAT still not admitted on its website that the APEC Study Centre report it commissioned and has presented as objective analysis was signed off by a business lobbyist representing some 18 international

corporations?

8. Why has DFAT accepted sponsorship from ANZ bank, an international corporation, to publish a one-sided *Globalisation: Keeping the Gains* and why has it apparently engaged Saul Eslake, Chief Economist from ANZ to deliver "community workshops" around Australia proclaiming the benefits of globalisation? (DFAT 2004:7).
9. Who will benefit most from this agreement? Who is advocating the deal and what are their motives?

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30 April 2004

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- "That enforced competition for the relatively narrow domestic ground means that radical change in the political objectives of foreign policy is very rare in Australian politics. The federal elections of 1949 and 1972 could be held to have ushered In such periods of change, but even at those time the changes were by world standards relatively minor." p.55.
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"NAFTA has embedded neoconservative structures and policies. It has radically shifted the balance between the market and government, between investor rights and citizen rights. Worse....it has frozen this imbalance in a supra-constitutional arrangement that makes these neoconservative experiments difficult, perhaps even impossible, to reverse." p.3.

"...one can surely ask why it [NAFTA] failed to deliver on its own promises: secure market access, closing the productivity gap, more and better jobs, stronger social programs, generalized prosperity." p.4.

Major NAFTA impacts: "**First**, there has been a long and painful period of economic and social restructuring marked by income loss, employment loss, and the growth of insecure and precarious employment. ...This is not an unintended consequence. ...A little-publicized Industry Canada study showed that, in the first eight years of "free trade," new jobs from the increase in exports were more than outweighed by jobs displaced or destroyed by the growth of imports." p.4.

"**Second**, a negative social adjustment...has taken place under cover of the war on the deficit; and a cut in taxes, largely for upper-income groups and corporations, has occurred under cover of competitiveness. [Not solely NAFTA] ...**Third**...binding investor-state cases and other NAFTA provisions have put a chill on environmental and labour standards-setting throughout the region. ¶**Fourth**...protections for social services such as health care and education...are seriously flawed and, in tandem with the GATS, constitute a threat to domestic policy flexibility and options around health reform." p.5.

"**Fifth**, NAFTA gutted the auto pact...eliminating its ability to establish a domestic investment floor through minimum content requirements. ...**Sixth**, contrary to the promise that productivity would soar...Canada's productivity performance has been less than impressive compared to other industrialized countries. The Canada-U.S. manufacturing productivity gap, which was supposed to narrow, has in fact widened—significantly." p.5.

"**Seventh**, Canada has been losing out to the other NAFTA partners, especially Mexico, as the preferred location of foreign investors that want to produce for the North American market. ...[most] new direct foreign investment is in the form of takeovers of Canadian companies... **Eighth**, although the U.S. has grown as the destination of 85% of Canadian exports, up from 75%...Canada's share of U.S. imports (18.5%) is about where it was at the outset of free trade. Thus, Canada has become even more vulnerable to U.S. trade sanctions, without having improved its share of the U.S. market. ¶**Ninth**, there has been no significant diversification of Canada's industrial base. ...**Tenth**, the large increase in north-south trade has, as anticipated, weakened east-west commercial linkages." p.6.

"Trade is a tool, and equitable, sustainable development is the goal. Free traders always confuse the two." p.7.

"Further, it [a progressive government] must recognize that the path to a productive and prosperous society does not lie in a vicious international competitive cycle of cutting taxes, wages, standards, and basic public services. Rather, the path lies in a strong public commitment to invest in social, environmental, transportation, communications, research, and cultural infrastructure. It lies in measures that reduce inequality and strengthen social cohesion." p.8.

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"...the kind of harmonious integration with it [the Asian neighbourhood] that is ultimately the best guarantor of long-term peace and security." p.35.

"...a liberal multilateral trading system serves the interests of all nations and is absolutely crucial to Australia's economic future." p.37.

"We have emphasised repeatedly that we are not interested in any new restrictive trading bloc..." p.38.

"...ideologically-founded visions and ideals, however powerfully expressed, do not improve living standards or even, in some cases, do not sustain them..." p.45.

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"• If the U.S. unilaterally goes to war, and it is anything short of a quick surgical strike (lasting less than 30 days), the economists were all predicting extreme economic gloom: falling dollar value, rising spot market oil prices, the Fed pushing interest rates down towards



zero with resulting increase in national debt, severe trouble in all countries whose currency is guaranteed against the dollar (which is just about everybody except the EU), a near cessation of all development and humanitarian programs for poor countries. Very few economists or ministers of finance predicted the world getting out of that economic funk for minimally five-10 years, once the downward spiral ensues."

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"This [APEC's focus on trade liberalisation rather than collaborative activities] was a reflection of the hijacking (in which the Australian government was a willing party) of APEC's agenda in the early 1990s by the Eminent Persons Group and its energetic chairman, Fred Bergsten. These efforts certainly achieved a high-profile payoff with the group's Bogor Declaration in 1994 that committed members to the establishment of free trade within the region by 2010 for the industrialised countries, and 2020 for the less developed." p.103.

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- "If the law of COMPARATIVE advantage is the most sacrosanct law in economics, nobody told Michael E. Porter, who replaced it with the law of COMPETITIVE advantage in 1990, and has even repeated the offence with a new edition recently.
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"In the 1991 Gulf war, others bore the cost. In effect, the rest of the world hired the US as its mercenary. This time, that is far less likely. ...Indirectly, the rest of the world still pays for the exercise of US power."

"In military affairs, the US can be unilateralist. But the world of economics is intrinsically multilateral. Those running the world's sole superpower would do well to remember this potentially painful fact."

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