

In the interests of balancing the debate that has appeared in Agribusiness on the Australia – US FTA, the following extract from the FTA Analyst – a pro FTA newsletter – is presented outlining some of the arguments in favour of the agreement.

The FTA Analyst Issue 9 27 May 2003

New Critiques? Old Arguments

Australian negotiators have returned from Round Two of the negotiations with the US over the Free Trade Agreement. There is nothing direct to report on issues- the process is still in early stages, although gossip has it that the claimed assaults on the Pharmaceutical Benefits Scheme and on local content rules on TV broadcasting are not leading targets for the US.

The debate over the FTA continues, and so it should. This is a matter of public importance.

Trade concerns

Michael Costello, former Secretary of Foreign Affairs and Trade and former Deputy with the Stock Exchange in Sydney has weighed in. He says Australia should not negotiate an agreement (Opinion page, the Australian 22 May).

He has made a new claim: an FTA will rebound against Australia because China and Japan will give preference to agricultural exports from ASEAN over Australia.

And an old claim: a deal between Australia and the US would undermine the global trading system.

The Productivity Commission has also issued a staff report. Bilateral and regional trade agreements divert trade. At least that's the bold print; the fine print is different.

Would China and Japan prefer ASEAN farm exports over Australia's?

Costello's claim is that: "Any benefits we get from increased agricultural exports to the US under an FTA, while of some value to specific sectors, would be modest in macro terms, and would be dwarfed by the present and future losses we would suffer in China and Japan."

What are the patterns of trade? Australia and ASEAN overall are not competitors in agriculture. ASEAN produces tropical products (rubber, palm oil, coconuts) Australia produces temperate zone products (beef, dairy, wool).

We do compete in sugar and rice, with Thailand. We can forget rice. We are not major exporters and never will be. In sugar, our exports to China and Japan last year earned \$370 million: Thai exporters earned \$150 million. Would either switch Australian supply to Thai sources? Not likely. Buyers like diversity in sourcing and certainty of supply.

Suppose they did. What offsetting gain is in prospect in a US FTA? How about an additional \$1.5 billion dollars (a conservative estimate) in exports of beef, dairy and sugar, over a 10 to 20 year period? Noting that beef and dairy exports to the Japan will hold, currently earning nearly \$2 billion a year.

Ed – This is an interesting claim, but it may sound more impressive than it actually is. The figure of an addition \$1.5 billion in exports over 'a 10 to 20 year period' equates to an additional \$75 million PA over 20 years or \$150 million PA over 10 years.

Lets put that into a context using the 10-year scenario as a proportion of unprocessed food exports. It represents 1.4% of total 'unprocessed food' exports – using the 2001/02 unprocessed food export figure of \$10.6 billion from the ABS.

The additional income as a percentage of exports becomes an even skinnier (1%) if we look at the figure for 'processed food' exports in 2001/02, which was \$14.6 billion.

So the actual increase being quoted is say \$150 million PA on top of annual 'food' exports worth \$25 billion, or an additional 0.6% of total exports PA.

Michael Costello didn't actually say why losing out to ASEAN was a prospect. China is developing a free trade agreement with ASEAN and Japan is proposing bilateral agreements with each ASEAN economy. Maybe this is what he had in mind. Talk is cheap about free trade agreements. Over two hundred worldwide have been initiated in the last decade. It is easy to negotiate a trade agreement without economic value. Most will be like that.

Also, he may not have caught up with the news that Japan is telling each ASEAN Government that it doesn't want agriculture covered in its bilateral agreements with them.

Would an FTA undermine the global trading system?

When Michael Costello became Secretary of Foreign Affairs and Trade over a decade ago, people were concerned that regional agreements – expansion of the EU and formation of the North American Free Trade Agreement – might undermine the global system. Perhaps he still sees the world this way.

The results of the Uruguay Round of global trade negotiations (which finished in 1994 and were implemented over the decade) largely fireproofed the WTO trading system and reconfirmed its centrality to international trade. Nearly 80 percent of world trade is now conducted at tariffs of 5 percent or less and these are fixed by legally binding commitments under WTO rules. This greatly limits the scope to give substantial preference in bilateral or regional agreements.

Costello warns of a return to the world of trade of the thirties where trade was directed by political preference. He apparently does not appreciate what anti-globalisation protestors do. They want trade organized along their preferred political lines and clearly see how the WTO is an impediment to that. It is the one thing they have right. Furthermore, studies by the OECD in 1994 and the World Bank in 2001 show that regional and bilateral agreements have not weakened the global system. A hub of bilateral agreements around the EU have not done so, nor would one based around the US, or anyone else.

Ed – To assert that trade of any sort is separated from politics is ridiculous. Both domestic and international politics impact directly on trade. Political systems in both exporting and importing countries determine trade policy. The GATT / WTO process is driven by the politics of freer trade. Opponents of trade liberalisation are driven by their own political imperatives.

For the last thousand years trade policies have been a very potent political tool and have been and continue to be used to strengthen political and military alliances (the EU, NAFTA, ASEAN).

Trade sanctions have been used to bring about political change (eg South Africa) and are still used as a 'threat' to countries who don't behave in a manner acceptable to others (eg Iraq, North Korea).

So Costello is warning against the emergence of trade blocs inspired by political favouritism. This is a criticism levelled at this FTA, seen by some as payback for involvement in the Iraq war. It has to be remembered that until then there was very little support in the US for the FTA with Australia and it was strongly opposed by farm state Senators and Congressmen. Originally the negotiation period was to be 5 or more years, now we are looking at ratification in the US in early 2004.

Protectionism post WW1 and through the 1920's contributed more to the Great Depression than the commonly blamed 'collapse' on Wall Street. In fact it was the decline in economic growth during this period as a consequence of trade being strangled and the subsequent slide into recession, that precipitated the Wall Street collapse and thus the Depression, not the other way around.

A changed world

Critiques of the FTA, like Michael Costello's, are based on pictures of what the world was -- a world economy restricted by barriers to trade in goods; not for what it is -- a world of open markets; and not for what it is becoming -- a global economy where investment is as important as trade and information technology is rapidly redefining efficiency and comparative advantage.

The Productivity Commission weighs in

The Productivity has just released a report indicating that an econometric analysis of a large number of free trade agreements revealed that most diverted trade and did not produce positive economic benefits.

Astonishingly, it puts the Australian New Zealand Free Trade Agreement into this category. There is no way that can be the case. While reducing bilateral trade barriers, both countries unilaterally reduced trade barriers with third countries. Significant trade diversion was extremely unlikely. Previous analysis of the agreement supports this.

The findings are also at odds with a very measured report published by the World Bank two years ago which examined all major regional and bilateral agreements. It cautioned that no economic methods of analysis existed which could give exact results and concluded that overall the likely economic impact of these arrangements was benign.

The Commission report is a "staff" report, making it the responsibility of the Chairman, the chief executive of the Commission, not the Commissioners.

Pity they were not involved. They might have required the bean counters to test their modelling results against common sense after they finished counting. It never hurts.

To be fair, the Commission did not model the US FTA and pointed out that the economic effect of an agreement does depend on the provisions. It is right of the Commission to be cautious about getting policy right. We are however entitled to expect better quality work than this.