

Self-interest drives free-trade crusade

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THERE was a messianic quality to Mr Keating's travels on the APEC free-trade pilgrimage in Asia.

There was also something curious about the juxtaposition of so much tub-thumping about the "moral" corruption of trade barriers and indifference to human rights in Asia.

The post-protection golden age, it is said, will embody a seamless web of mutually beneficial market relationships at the global level.

If free trade is so good, why is it so rarely practised?

The survival of GATT itself and its successes is due to the relative security of the post-war boom, in turn underpinned by American economic strength, Cold War politics and widespread strategic direction of national economies by their governments.

The conditions for freer trade are tenuous. Freer trade was as much a product of post-war economic growth as it was its source. Yet the experts are claiming a \$750 billion trade bonanza following the Uruguay Judgment Day on sinful trade impediments. These expectations, reproduced ad nauseam in the press, are fanciful.

The benefits of freer trade are also selective. Asian governments know that, and their representatives will not be grateful for being labelled "cheats" (Mr Keating's label). The Chinese, for example, have a keen memory of the role of free-trade propaganda in the opium wars and the loss of Hong Kong.

Post-war liberalisation was not driven by textbook norms of national comparative advantage, but was predominantly intra-industry in manufacturing and equipment.

It is indicative of the religious approach to trade policy that the Australian contingent

Australia must wake up to the political realities behind the debate on trade barriers, reports
EVAN JONES

went into the Uruguay Round without a dossier on the history and politics of GATT. A reasoned analysis of the nature of the beast might have given better value for money and more finely honed strategies. A particularly blind eye appears to have been turned to the Americans.

The operations of GATT during the post-war period were not dictated by an altruistic United States which has since lost its way. The US has always had an eye primarily on self-interest. In the 1950s, the US sought and achieved a flexible waiver from GATT rules to protect its extensive farm program with import quotas. With the construction of the Common Agricultural Policy in Europe under US support, agriculture was taken off the GATT agenda. Agriculture made it onto the Uruguay Round agenda partly because the relative priorities of the US have changed in the 1980s.

US representatives have always seen GATT in a strategic rather than an idealistic sense — the GATT is to be used when it suits US interests and abused when it doesn't.

This explains why US representatives can simultaneously pursue treaty-making through the GATT, forge a US-dominated NAFTA regional trade bloc, erect a movable feast of trade barriers and wage a bilateral trade war with Japan. These are components of an integral (if incoherent) package of trade policy, combining the interests of various domestic constituents.

It also explains why US representatives look uncomprehendingly at Australian representatives when the latter point out presumed inconsistencies in US actions.

After all, Australia is a country which runs a bilateral deficit with the US of \$13 billion (1992-93). This deficit does not exist by accident. It is the price of the "alliance". The US had to buy off half of Asia from communism by opening its domestic market, but Australia offered its political virtue for a song. Why should trade negotiators concern themselves with a country whose allegiance comes so cheaply?

It explains, though the ink is not dry on a predictably bastardised Uruguay outcome, why the US is busily planning further bastardisation — with enhanced subsidised exports of grains and dairy products, and a resurrected Farm Bill.

The problem with the Uruguay Round "agreement" is that the Australian contingent returned from the crusades seemingly flushed with victory only to find that the war is still being waged — the belligerents twisting the new rules to the same old self-interest.

If and when the Japanese decide that they will adhere to "free trade" in some APEC talkfest, it will not be because they have been convinced of free trade as an eternal verity but because they will now turn structural and political pressures to their advantage.

The rhetoric of trade policy in Australia displays a jejune combination of bookishness and zealotry. Perhaps trade diplomacy at the front displays more sophistication and hard-nosed application. If that is the case, our political masters and the media which cultivates public opinion deserve to hear about it.

Evan Jones is senior lecturer in economics at the University of Sydney.

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Being brought to account

APR 5-6.99

Australia's trade deficit reached its second-highest level on record in March. But if we live in a borderless world, should the current account really matter anymore? **Evan Jones** suggests that economists can learn something useful from the McEwen era.

Australian officialdom regards the balance on current account with substantial ambiguity. A blow-out in the deficit is met simultaneously with indifference and concern.

In response to February's record monthly deficit on goods and services of \$1.5 billion, the Federal Treasurer, Peter Costello, is said to have been both "unruffled" and yet to have promised a tight Budget.

The March deficit on goods and services is down slightly, but still hovers at about \$1.5 billion. Gold exports are up, but imports of cars and capital goods keep flooding in. To this should be added an "income payable" deficit of at least that monthly figure, generating an annual equivalent deficit of not much less than \$40 billion.

The atmosphere is clogged with spurious opinions. In particular, inadequate saving (including by governments) is held to be the major long-term problem.

Some economists think that the current account is self-correcting so that sustained deficits are impossible. Others think that micro-economic reform will ultimately correct the deficit.

In relative terms, the deficit has fluctuated between 3 and 6.5 per cent of GDP since the early 1980s, but it took a vicious recession in the late '80s to keep trends within these bounds.

In absolute terms, the deficit has been climbing since 1972/73, with no prospects of long-term balance. Is there now a "natural" deficit on current account, akin to the "natural" rate of unemployment?

The current account is a statistical artefact of pragmatically evolved conceptions of the "national economy". It summarises the economic transactions between "Australians" and "non-Australians".

Does the deficit matter? Does the national economy matter?

If not, let's pursue assertively the implications. This mentality was favoured with the sometime popularity of the "Pitchford" thesis - international transactions are the product of consenting adults. Whether such transactions are ill-judged is therefore not of public or "national" concern.

The Pitchford thesis was influential in the early 1990s in supporting a hands-

off approach to the current account.

Yet the thesis was appropriated less out of principle and more as a pragmatic prop for inaction. The current account was essentially in the too-hard basket.

The imprecise meaning of the statistics themselves add weight to the negative case. An Australian-based company that produces goods in China and parks its profits in a tax haven doesn't help the current account. What do we want to measure?

Where does one locate the statistical reflection of corporate activity of indeterminate nationality? Is News Limited

"Why get hot and bothered over a statistical edifice whose accuracy and meaning remain elusive?"

Australian, American or Bahamian?

How does one record the domestic activities of James Hardie and Brambles, should they list overseas, as mooted. And what of the international transactions which are wrongly recorded or go missing?

Why then get hot and bothered over a statistical edifice whose accuracy and meaning remain elusive?

The only principled response to this imbroglio is the cessation of the production and distribution of the statistics. This might be a jolly good idea, as we would be spared the hyperbole ensuing from the release of monthly current account figures.

The hand-wringing would cease; ignorance would be bliss. Full steam ahead to the truly global economy!

If national economic accounts do matter (the IMF and the credit agencies think so), perhaps Australian governments should treat them seriously.

The recurrent deficit on "income payable" (\$20 billion in 1997/98) is not a product of inadequate domestic saving. It is a product of financial deregulation and the internationalisation of the domestic capital market.

Current policy changes will impact further on this deficit. What is the impact on the current account of privatised foreign-owned infrastruc-

ture? Of Mr Mansfield's big ticket investment attraction program? Of a 30 per cent corporate tax rate to feed a ravenous financial services sector? The major parties in parliament neither know nor care.

The merchandise trade balance has been, on balance, in the red since the disastrous early 1980s recession. In 1997-98, the net deficit in chemicals, machinery and transport equipment reached \$50 billion.

The deficit in elaborately transformed manufactures is of the same order. Exports in these categories are climbing (thanks to various government programs), but the imports are zooming.

Covering a yawning chasm in value-added imports is a tall order. Wool has gone out backwards; minerals are on the ropes; tariffs are on the nose.

How much cotton can one produce for export before other water-users and environmental concerns call a halt? How much shoddy educational credentialism can be sold to Asian students before they decide to go elsewhere?

If the current account matters, it deserves bipartisan priority status. The meaning and accuracy of the figures need to be addressed. The level and components of the deficit demand systematic deconstruction and strategic attention.

A perusal of IMF statistics highlights the varieties of current account experience. There might be lessons from the Netherlands, Singapore and Switzerland - robust economies whose current accounts (components as well as aggregates) manage to be consistently just in the black.

Closer to home, the 1960s trade bureaucracy under Alan Westerman strategically pulled apart the current account. It aimed to generate means to lessen persistent pressures on the currency.

It hobbled the power of the Shipping Conference over Australian trade; it continued to push manufacturers and elevated tourism as potential export earners; it queried unconditional foreign investment; and so on.

Learn something useful from the dark days of the McEwen era? I'd like to see that.

■ Evan Jones is a senior lecturer in economics at the University of Sydney.

Manufacturers

As the war over US steel tariffs is escalating, **Evan Jones** says Australia is dreaming if it thinks free trade will ever be a reality. **Michael Roche** says this week's steel summit risks forcing Australia down a non free-trade path.

Trade isn't free, it's a dog-fight

Evan Jones

Why are we surprised at Europe's threat yesterday to retaliate against the United States on steel imports? Why are we shocked at the Americans imposing their tariffs in the first place?

Unfortunately, Australian policy-making circles (especially during the Labor years) allowed free-trade ideology to marginalise a realpolitik confrontation with trade realities.

We have endured years of Australian officials dangling on the multilateral drip, waiting for the Americans, the Europeans and the Japanese to "see reason". The paltry pickings from the Uruguay Round haven't dampened the millenarian dream of Australian agriculture invading world markets and financing eternally the addiction to value-added imports.

BHP Billiton has gained concessions on cheap slab steel and specialist hot-rolled steel coil. But continued restrictions on entry into the significant American market will heighten competition in all other markets. Challenges through the World Trade Organisation process, which the European Union is contemplating, consume resources. There is a short-term impasse, and the US is dictating the terms.

Free trade, even freer trade, is contingent on context and the balance of forces.

If the Norwegians want bananas or the Japanese want oil, it is imperative that they import it. It may be sensible for the Americans to import lamb and the Japanese to import rice, but on what principles does one harangue them to do so?

Comparative advantage carries its own ideological baggage.

When the Japanese decided to join the big league, Britain and the US were offended. It was Japan's role to export raw silk and cheap textiles and accept its place in the global hierarchy of nations.

Conflicting expectations led to war; Japan lost the military war but won the trade war. The rest of Asia



BHP Billiton has some steel concessions, but US restrictions will heighten competition in all other markets.

Photo: JESSICA HROMAS

followed Japan's example. The Americans still haven't recovered from this affront to white supremacy.

Steel production, for example, was supposed to remain the monopoly of the first world, but the developing world declined to comply. The world is now flooded with steel. Who is to say which country should relinquish a critical mass of a product of strategic significance?

And what of Australia? Australia's agricultural sector was nurtured to suit an imperial division of labour. With the disappearance of the original rationale, why should Australian rural producers expect to readily sell their output into a world organised on different politics?

From the perspective of the domestic market, why does Australia import Brazilian orange juice (averaging \$40 million in the past three years)? On what terms, if at all, should Australians import fruit from the Philippines to facilitate regional development?

The decisions are as much social, political and moral as they are economic. Efficiency considerations have to be weighed against considerations of community stability, equity both within and beyond national borders, defence preparedness, and so on.

Consider the prospect that a significant percentage of all manufactures will soon be produced on Chinese soil. The incursion into the West's prerogatives by Japan and the four tigers is a mere entrée to the main course.

The disruption to Western economies will be profound. Your clothing industry has gone; your electronics industry is going; what price your automobile industry?

From the Chinese perspective, the further rationalisation of Chinese agriculture will continue to disrupt massively its social fabric. But official circles declaim only the universal bounty to be had from China's WTO membership. The harsh reality is that international trade is a dog-fight, and its local

implications may be beneficial or disastrous. Its organisation cannot be put on automatic pilot, or dictated purely by functionaries in WTO-type commissions. Trade cannot be removed from political determination.

The GATT/WTO structure was supposed to have narrowed the necessary skills to hard-headed diplomacy. But it hasn't eliminated the need for morality among the powerful, and creative trade strategies (and single-minded bastardry) among the weak. On the bastardry front, the Government could take a flint-eyed look at Australia's trade deficit with the US (\$10.7 billion in 2000-01), with a view to whittling it down from the import side.

On the education front, we could do no worse than strongly endorse to the next generation the study of history rather than economics.

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Steel industry needs an outward focus

Michael Roche

■ The demand for effective action

defensible given the circumstances, it should not be undertaken in isolation, nor without regard to its impact on

the local market will be able to totally absorb what this country's steel manufacturers have lost with

minimum of five years, an incorrect pricing strategy can mean short-term gain but long-term pain.

A heavy-duty vehicle for colonisation

Cambodia Times, 11 August 2004

Evan Jones argues that for the US, free trade agreements are an exercise in gaining leverage over foreign governments.

JOHN MAYNARD KEYNES once reflected that his upbringing presumed free trade to be part of the moral law. More, he regarded departures from it as being "an imbecility and an outrage".

Yet by 1933, Keynes's world view had altered, his reflections perhaps resonant for our own generation. "But it does not now seem obvious that a great concentration of national effort on the capture of foreign trade, that the penetration of a country's economic structure by the resources and the influence of foreign capitalists, that a close dependence of our own economic life on the fluctuating economic policies of foreign countries, are safeguards and assurances of international peace."

World War I had shattered Victorian provinciality. Upstarts Germany and Japan were stealing British markets. But the greatest upstart was refashioning the free trade catechism to suit its own ends.

The US Secretary of State, John Hay, articulated the Open Door doctrine in 1899. Self-determination and the open market place were the underlying principles.

Francis Thumber, president of the US Export Association, was at the right hand of Hay. "I do not believe in imperialism... but I do believe in a policy of expansion which will give us the control of some markets which will be a stepping stone to others in a wider zone of influence which such control would enable us to exercise".

Self-determination was fine for excising the European powers from their colonies, but the Americans immediately blotted their copybook in Cuba, Hawaii and the Philippines. Each opening of a marketplace necessitated the shelving of the principle of self-determination.

The battering ram of rhetoric complemented the hypocritical practices from the start.

One hundred years later, under the refurbished rhetoric of freedom and democracy, the United States is still

exporters and leverage over North African governments. The Moroccan FTA is a potential disaster for Moroccan farmers, for the Moroccan services sector and for indigenous health, with the generic medicines industry under threat.

The eminent pro-multilateralist economist, Jagdish Bhagwati, had this to say before a Congressional Committee on April 1, 2003: "The bilaterals, between us and small countries like Jordan, Singapore, Chile and Morocco cannot be judged on the basis of trade alone. They are increasingly used to establish 'templates' by different lobbies."

The templates are then used as a "divide and rule" strategy against developing countries in other forums. The Jordanian FTA is used as a decoy for labour and environmental standards which are fast-tracked into other FTAs; the Chilean FTA is used as a decoy for restrictions on the host country's use of capital controls; and so on.

Current negotiations, with Columbia are instructive for the Australian situation. A Columbian industrialist, Emilio Sardi, has strongly criticised the process, characterised by secrecy and undue haste on the part of the Trade Ministry negotiating team, and lack of consultation with affected parties.

Sardi notes a substantial inequality in the bargaining capacity of the two teams. Australians might reflect on the capacity of the Australian bargaining team under the affable Trade Minister Mark Vaile, an ex-stock and station agent utterly out of his depth.

Sardi claims that the Columbian FTA will "impose legislation on all Columbia's economic life". He continues: "These rules could finish off the nation's food security and put at risk access to health for the majority of Colombians. If they are accepted they will have a supra-constitutional character — coercive and irreversible".

A foretaste of the future was embedded in the 1993 North American Free Trade Agreement treaty signed by Canada, the US and Mexico. Chapter 11 gives companies the right to sue governments if their programs threaten the loss of potential future profits. A company suit is presided over by an unaccountable tribunal, with proceedings secret and involving no right of representation by the government concerned.

Thus, the Canadian Government has reversed an import ban, made on environmental and health grounds, on a gasoline additive made by US-based Ethyl Corporation which sued the Government under Chapter 11. The State of California has been sued by Canada-based Methanex for legislating to phase out Methanex's gasoline additive MTBE on similar grounds.

As of September 2001, damages claimed by foreign companies were estimated at \$US13 billion, of which \$US1 billion has been claimed from the Canadian Government.

Fast forward to the US-Australia FTA, over which doubting Thomases have been berated by officialdom and the media.

There has been much hand-wringing about divergent estimates of the net benefit to Australian residents of the FTA by various econometric model-builders. But this is all diversionary.

The important lessons are to be found in the Twentieth Century history of American foreign and trade policies. The US-Australian FTA is simply a vehicle for further colonisation.

The dearth of intelligence in the official pursuit and defence of the FTA is a scandal. Truly, Australia is a banana republic.

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Mark Vaile, right, and US Trade Representative Robert Zoellick, at the signing of the FTA earlier this year.

geopolitical interests. They serve the interests of American corporations and of a bipartisan foreign policy. The two interests are inseparable, if not congruent.

Jeffrey Garten, an establishment figure in both political and financial circles, declaimed in a 1997 issue of the prestigious journal *Foreign Affairs*: "Throughout most of American history, commercial interests have played a central role in foreign policy, and vice versa". You couldn't get more straightforward than that, and from the horse's mouth.

The press release from the office of the US Trade Representative for the recently finalized Moroccan FTA mentions only gains for American