

Review Article

Freely Trading: A Review of How to Kill a Country – Australia's Devastating Trade Deal with the United States by Linda Weiss, Elizabeth Thurbon and John Matthews, 2004 Sydney: Allen & Unwin, pp. 1-190 + i-x, ISBN 1-74114-585-6

Reviewed by Craig Freedman*

... it is worth of note that FTAs have gone from being a little-used economic device to being a principal tool of U.S. foreign policy, and that is a development worth of great attention – far more than it has received to date (Mastel 2004:45).

Despite on going attempts to revive the Doha round of trade negotiations, the current strategic policy trend of choice for countries both big and small is the Free Trade Agreement¹. These are simply a form of Preferential Trade Agreement whereby tariffs are reduced or eliminated between partners, allowing each treaty member to set its own external tariffs in relation to non-treaty countries. Other factor elements, such as capital and labour flows can be included, as well as attempts to standardise selected regulations. Nonetheless, Free Trade Agreements may have as much to do with free trade as welsch rabbit does with rabbit (let alone the Welsh).

You don't then have to be a committed ideologue believing that trade is a devious device to further impoverish the poor and/or the working class, or even a traditional conspiracy theorist with decided views on globalisation (a term that obfuscates more than it illuminates) to look at such agreements with a great deal of scepticism. Anne Krueger and Jagdish Bhagwati, those two stalwart soldiers of the never-ending economists' crusade for free trade, are as much opposed to these deals as is the most dedicated demonstrator storming the latest World Trade Organisation meeting. The objections of many mainstream economists often focus on the issues of trade creation versus trade diversion and whether such agreements are stepping stones or stumbling blocks on the way to the greater good of free trade. Despite these many caveats, coming from supporters as well as opponents of free trade itself, crafting preferential

* Director, Centre for Japanese Studies, Macquarie University.

trade agreements, which potentially benefit all parties involved, remains a distinct, if sometimes problematic possibility.

However, it is clear to many economic analysts, perhaps even to the majority of them, that the recent Australia/US Free Trade Agreement is an unmitigated dud, no matter what one's take on the topic of free trade might be. In other words, an even handed approach to analysing this particularly treaty may in the end be more convincing than any more partisan attempt that tries to bludgeon it to the ground. In fact, by exaggerating the problems and adopting an impassioned attack, none but those already predisposed to such anticipated conclusions will end up convinced.

The authors of this volume, intending to display the dangers and shortcomings of the Australia/US Free Trade Agreement, start with two related handicaps. Both stem from a legitimate desire to persuade the general Australian public of the dangers of this particular treaty. One is the rush in which the book was written, basically an expanded version of the Senate testimony provided by the first two authors.²

The book was written under great pressure in order to coincide with the 2004 federal election, as a wake-up call to the newly elected government – the government that will be forced to confront the massive changes of the FTA era. We wanted the government, and the Australian people, to be aware of the enormity of these challenges, and of how they might be negotiated (Weiss, Thurbon and Matthews 2004:vii).

Clearly we are faced with a partisan volume and all the problems associated with such an approach. This does not mean that the book should be dismissed out of hand. It can still be a valuable contribution despite any inherent tendency to present issues more one-sided and with greater simplicity than is absolutely warranted. It does mean that the reader must be careful to weed out all and any exaggerations. I will let the authors themselves rabbit on in a fashion which provides justification for this claim.

The days of being the 'lucky country' – even with the phrase's ironic overtones – are over. The FTA changes everything: our economic and social policy options, our international economic and political constraints and, ultimately, our sense of place that helps define who we are. We make our own position clear. We offer compelling evidence for our conviction that this FTA will turn us into an appendage of the United States – not a potential

‘fifty-first state’ (because that is not, and never will be, on offer) but a kind of Pacific Puerto Rico. This is not the future that we would have hoped for. And it is not the future we had to have (Weiss, Thurbon and Matthews 2004:vi).

Also, if it is to serve effectually as an unwavering, partisan device, the book needs to be written for as broad an audience as is possible. There is nothing wrong with such a reductionist requirement. However, added to the admitted time pressure, this can lead to an over-simplified argument, lacking any detailed empirical evidence. Like any book of this sort, its quality will depend upon the authors’ ability to avoid these well known traps. Thus the best way to evaluate this particular offering is to look at the quality of the argument on offer. For an economist this might entail the degree to which this book is underscored, if even in a very implicit way, by some understanding of trade theory. A supporting structure can help clarify and organise a work’s argument rather than surrendering to some more convenient, if atheoretic sequential muddle that might allow the authors to champion their objective in a more facile fashion.

An immediate fault line within this book then, is not so much that the stance adopted by the authors is nationalistic, but that the authors see trade negotiation as some type of zero sum, mercantilist game.

Anyone who has tried to make sense of international trade negotiations eventually realizes that they can only be understood by realizing that they are a game scored according to mercantilist rules, in which an increase in exports – no matter how expensive to produce in terms of other opportunities foregone – is a victory, and an increase in imports – no matter how many resources it releases for other uses – is a defeat (Krugman 1997:114).

The usefulness or benefits that a given trade action yields does not depend on reciprocal actions of a given trade partner. In other words unilateral action can also be advantageous. True, it is often the case that matched actions provide even greater mutual benefits, but this doesn’t mean that negotiations must be seen in the same way as a sporting contest would be evaluated. In concrete terms the authors argue that the opening of markets in many cases was largely one-sided. Australia opened up bidding for government contracts to US firms while the US kept restrictions in its bidding process that would continue to favour US over Australian companies in a range of cases. The more sensible approach to take is to first ask whether Australia will benefit by opening up its bidding process.

However, if the answer is in fact 'yes' then these same benefits could have been achieved unilaterally by Australia. Treaty negotiations were not needed. The role of trade agreements is to use the possibility of opening up the Australian bidding process as a bargaining chip in hopes that the US will then reciprocate and open up its government procurement process in turn. Bargaining then can be seen as a method to force a country to do what is in fact beneficial for its own economy. Why must this be done by force? In some cases vested interests within a given country constrain political possibilities. Only by appearing to wrest a favourable outcome from an opposing country are negotiators able to sell liberalisation of its own trade policy to voters in general.

Never mind that the 'concessions' trade negotiators are so proud of wresting from other nations are almost always actions these nations should have taken in their own interest anyway; in practice, countries seem willing to do themselves good only if others promise to do the same (Krugman 1997:113).

The authors then do tend to pander to popular sentiment by comparing how much Australia has won versus the US. A successful agreement doesn't have to guarantee that Australia wins more than the US but that the gains are substantial³ and could not have been gained by other, more efficient means. Trade negotiations should not be reduced to some sort of Olympic competition.

Given that the authors don't always resist the temptation to stack the deck, what they do accomplish can best be judged by analysing the way in which they present the key feature of the agreement. To do this I'll try to strip away some of the rhetoric which seeks to persuade on a more emotional level.

The authors present their most persuasive case on the agricultural front, which makes it a good place to begin. If a trade agreement with the US were to bring real benefits to Australia the key area would be the farm front. Australia's major exports to the US are meat and edible meat offal (18.5% of exports) while beverages, spirits and vinegar hold a 9.7% share. The reason agricultural exports are not larger is due to the barriers that the US, as well as other countries, put in place. A major reason for the overall declining importance of Australia's agricultural exports has less to do with efficiency issues than with the fact that entry into the most lucrative markets is to some degree closed off. This is such a widespread phenomenon that the authors could have devoted additional time to explaining why domestic rural interests are often so successful at protecting their markets in developed economies.

In the Australian case, the greatest potential gain would have been in additional sugar exports. US sugar is more than twice as costly to produce as the Australian version⁴. As the authors point out, the Free Trade Agreement gave Australia not a tablespoon's more access to this lucrative market. Instead, these negotiations generated Federal payments to Queensland cane growers to sweeten the natural disappointment they would feel in being left empty handed. (That an election was also looming clearly made this necessity more exigent.) Here the authors pass up the opportunity to place the issue of sugar exports in an appropriate context. Clearly, the general US public would benefit from cheaper sugar as well as all the food processing industries that make such great use of it. The reason US cane growers manage to achieve such protection lies in political influence. Australia went into these negotiations with little chance of wresting any favourable concessions on sugar quotas, but seemed unaware of this salient fact. Or to put it another way, Australia had no leverage to force the US into doing what ironically was the best alternative for the American economy. What could have been emphasised more sharply by the volume's authors is not only the fact that Australian negotiators seemed deliberately naïve when dealing with their US counterparts, but that anyone even somewhat familiar with the prevailing US political economy should have known better. The real surprise within these negotiations is the consistent naivety underpinning the Australian position.

Again, the urge to simplify tends to distract from a very good section on changes to the Australian quarantine laws. Trading agreements can potentially be beneficial in terms of rules and regulations. They can serve as a catalyst for putting in place standards that are less the reflection of domestic vested interests. So US foisted changes in Australian regulations are not intrinsically bad. Nor specifically do countries always use quarantine restrictions for beneficial objectives. The authors could have easily found cases where quarantine was simply a device to protect inefficient domestic farming. This context then would have helped in pointing out the problems intrinsically associated with changes brought about by the Australia/US Free Trade Agreement. That US farm exporters benefit from these changes portends nothing of a nefarious nature. Yes, these farm interests will push hard for such changes. But this doesn't mean that such changes won't also benefit Australian consumers. The need is to demonstrate that these restrictions failed to serve a relevant economic purpose. This the authors largely accomplish though failing to make one obvious argument along the way. If these changes were so advantageous to the Australian economy, why hadn't they been granted unilaterally by the Australian government prior to any negotiations commencing? This

same argument could have been extended then to any other similar change in standards instigated by the treaty.

This issue of standards and regulations represents the most interesting section of the book. (Certainly the authors realise this by devoting the majority of their efforts to this particular examination.) As the book makes clear, these are the areas of greatest importance, but areas not sufficiently aired in the public debate⁵. One qualifying note has to be attached under the discussion undertaken in the volume. It tends to the doom and gloom school of analysis. The future is not quite that definite. We reasonably talk about likelihoods and possibilities, rather than certainties no matter what the rhetorical temptation. Too many of the authors' definite predictions are made without any reliable empirical evidence. Again, in this rush to convict, the larger context is not sketched with sufficient clarity. For instance, the Australian pharmaceutical market is relatively small. The intention by large international firms is not simply to receive desired prices in Australia, but to establish *de facto* world-wide standards by winning battles in one country after the next. A single, small economy lacks basic leverage in negotiating with the US. The pharmaceutical companies, heavy contributors to US political campaigns find it more strategic to fight a sequence of battles via US trade treaties than to opt for an all or nothing scenario.

Where the book is strong is in pointing out the weakness of claims for higher pharmaceutical prices. In a more detailed work, additional evidence could have been examined as well as the supporting claims of the drug companies. But readers can still achieve a reasonable grasp of the key issues. One important element in the Australian case that is delineated are some potential changes to the operations of the Australian Pharmaceutical Benefit Scheme. Again, this analysis and the conclusions drawn should be labelled as simply likelihoods, not unavoidable facts.

The goal of these changes is to increase coveted listings of those drugs qualifying for federal subsidies. Coveted because although these drugs sell at a discount to the state, the subsidised price to consumers creates an increase in volume that ultimately benefits the drug companies involved. The problem for these pharmaceutical companies is that the number of drugs accepted is limited. Doctors on the relevant advisory board evaluate such drugs in terms of patient benefits. Expensive new drugs that accomplish little more than existing old line treatments are unlikely to get a look in. Nor are claims that sexual dysfunction represents an urgent health epidemic likely to be accepted. The authors show how the treaty provides an opening that might ultimately influence the number and type of drugs that get the nod for the benefit scheme.

Related to and including a number of these pharmaceutical issues is the wider area of intellectual property rights. The treaty largely substitutes US defined standards in place of long established Australian ones. Again, this would pose no problem if such standards could be shown in some way to be superior. Clearly, no legitimate economic argument exists that unambiguously can defend these very proprietary US standards. As the authors correctly point out, "...Australia has actually agreed to place in the Free Trade Agreement provisions that have nothing to do with free trade and everything to do with protecting the monopoly rights of IP[intellectual property]holders!" (Weiss, Thurbon and Matthews 2004:116). These US based firms have a stranglehold on a good percentage of intellectual property. They are determined to protect and increase their quasi-rents worldwide with the help of US negotiators.

The chapter on intellectual property rights is by far the essence of the entire book. Establishing these property rights on a worldwide basis, along with using trade to foster foreign policy objectives, seem to be the drivers behind the US push to ensnare as many countries as possible in these trade webs. If anything, the chapter dealing with this issue could be expanded and clarified. More evidence would also be welcomed. For instance, the authors claim that the new system will discourage innovation in Australian biotechnological and information and communication technology sectors. This is a vital issue, but the argument here is at its flimsiest, without sufficient evidence for support.

Lastly, I was left unimpressed by the authors' warnings regarding changes to public procurement laws. It is true that Australian firms are unlikely to see gains in the US government procurement market. Here the arguments put forward are unexceptionable. Moreover, the first nine months of the agreement have seen almost no change in activity on this front. But where the authors disappoint their readers is in analysing changes to the Australian procurement markets. Assertions seem to supplant argument, particularly assertions that are worryingly free of any evidence. No mention is made that open contracting of this sort may bring lower priced services beneficial to the general Australian public. Instead, a nationalistic argument is introduced that is essentially a throwback to the infant industry rationale for trade protection. However, the authors fail to provide any convincing argument tied to the specifics of the Australian case. Yes, it is true that the US military underwrote the expansion of parts of the information technology sector in that country. But what evidence is there that government contracts have done anything but subsidise smaller and less efficient Australian providers? Evidence is never forthcoming on this point. This is the one time in the volume where the authors seem

clearly reaching for excuses to condemn this trade agreement. Given the dubious nature of the treaty, this is largely superfluous overkill.

The authors have produced a useful, though somewhat impassioned introduction to the Australian/US trade agreement. Anyone interested in trade policy, whether specifically Australian or on a more general level, will benefit by reading this compact volume. Looking at the problems of a given Free Trade Agreement (especially one between a small and a large economy) provide needed insights into potential problems that are likely to arise in future agreements of this type. Unfortunately, a tendency to degenerate into a henny-penny analytic approach tends to distract, rather than convince, the uncommitted reader. Preaching to the converted is a tempting, but ultimately unproductive activity. Talking only to one's brethren tends to mislead preachers as to the support for their own tenets. Better to tone down the hyperbole and trust that readers are able to evaluate arguments even when they are not one-sided.

Notes

- 1 From a handful of approximately forty such agreements in 1992, by 2004 the number had reached well over two hundred. In the particular years following the turn of the century the number had approximately doubled.

By July 2003, only three WTO members — Macau China, Mongolia and Chinese Taipei — were not party to a regional trade agreement. The surge in these agreements has continued unabated since the early 1990s. By May 2003, over 265 had been notified to the WTO (and its predecessor, GATT). Of these, 138 were notified after the WTO was created in January 1995. Over 190 are currently in force; another 60 are believed to be operational although not yet notified. Judging by the number of agreements reportedly planned or already under negotiation, the total number of regional trade agreements in force might well approach 300 by 2005 (WTO 2004).

Chinese Taipei (Taiwan) would clearly like to join the party but is limited due to its enforced limbo status. Macau China's aims are constrained by PRC wishes. Essentially it would be accurate to specify Mongolia as being the only remaining wall-flower.

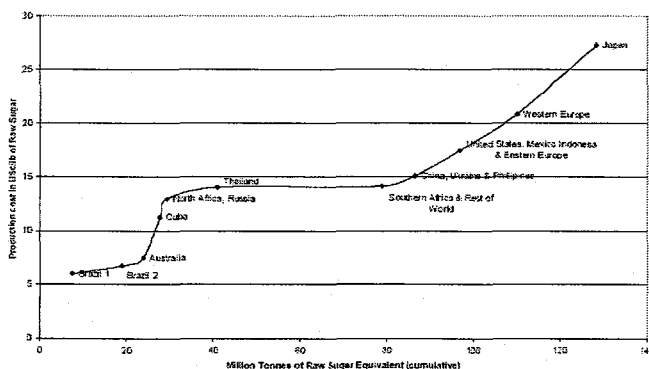
There is almost a copy-cat mechanism driving this explosion (not unlike that which drives criminals to imitate remarkable or heinous crimes). This has been noted facetiously:

Meanwhile, the 'small' PTAs [Preferential Trade Agreements], usually without some big country providing the centre to them, continue to proliferate, chiefly (though not exclusively) among the developing countries. The incentives to have these are often political. Each Trade Minister, and his Prime Minister, wish to leave their names behind on some trade grouping of their own; multilateralism produces no such rewards. Then there is the CNN theory of such PTAs: whereas multilateralism produces phot-ops only for the big players such as Sir Leon Brittan and Ambassador Mickey Kantor, and nothing for the others, matters are more balanced at the regional trade meetings (Bhagwati, Greenaway and Panagariya 1998: 1145).

- 2 It would be nice to think that every book was so well crafted that the reader would suffer a loss by skipping even the feeblest footnote and certainly the flimsiest of prefaces. Long experience has taught us the underlying innocence of such beliefs. However in this particular case, reading the preface carefully does make the underlying aims and prejudices of the authors quite clear.
- 3 Substantial since any change in trade created by negotiation will incur both winners and losers within a given country. There has to be sufficiently clear gains to make the idea of actual compensation to those who lose out workable. Also, potential gains and losses can only be estimated. Projected net gains have to be large enough to take into account possible mis-estimations.

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Figure 1: Sugar: average cost of production in selected countries (US cents/pound)



Source: ACIL estimates

Notes to figure:

- Estimates are based on industry opinions obtained by ACIL in June 2002.
- Volumes are based on mean production for the three years to 2001.
- Region 1 Brazil is the low cost South-East Region, while Region 2 is the rest of that country.

- 5 The issue of generics and pharmaceutical patent abuses were picked up at the last minute by the opposition Labor Party in the run up to the 2004 Federal election. Unfortunately, timidity or other political factors limited the debate to this one issue.

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