

# US-Australia free trade deal: a dubious payoff for joining Iraq war

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Some 60 United States officials are due to arrive in Australia this week for the first round of negotiations on a proposed free trade agreement (FTA) between the two countries, a deal that is widely regarded as a payoff for the Howard government's unswerving support for the US-led assault on Iraq.

Ironically, the week-long talks are scheduled to commence on March 17, the deadline set by the US and British governments for launching a full-scale war. Even as the bombing begins, Australian officials will be discussing with their American counterparts how to reap the benefit of the military alliance.

While in Washington last year to re-state his commitment to the Bush administration, Australian Prime Minister John Howard lobbied intensively for a White House undertaking to start FTA negotiations. After finally receiving a date for the talks, he told the Australian parliament last November: "This is, by any measure, an historical development in the bilateral relationship."

While both Washington and Canberra publicly deny any direct link between the FTA and the war, official documents indicate otherwise. Last November, in notifying the US Congress of the Bush administration's intention to commence negotiations, US Trade Representative Bob Zoellick stated that an FTA would "strengthen the foundation of our security alliance".

Zoellick continued: "We are already partners in the areas of intelligence, military inter-operability, command-and-control, and security planning. An FTA would facilitate the building of new networks that enhance our Pacific democracies' mutual interests."

On the Australian side, a Monash University report commissioned by the Department of Foreign Affairs and Trade argued that military considerations were central, above and beyond the forging of closer economic ties to the US. The first benefit of an FTA would be "a strengthening of the overall relationship with the United States. It is appropriate that the defence core of the relationship be broadened by adding an economic core."

The Monash report added that Australia had "an interest in maintaining a strong US presence globally and within the Asia Pacific region in particular". This reflects the calculations made by the Howard government that involvement in Iraq is a

necessary downpayment for US military, diplomatic and economic backing for Australian influence in the Asia Pacific area.

There is a broader parallel between the military and economic issues. Just as the US turn to "pre-emptive" military operations marks a fundamental shift to aggressive unilateralism, the formation of exclusive trade and investment relations with individual countries is a sharp departure from the multilateral approach to economic globalisation over the past two decades.

Since its installation in 2001, the Bush administration has pursued FTAs with a string of selected governments, including those of Jordan, Singapore and Chile. By 2005, it hopes to finalise a Free Trade Area of the Americas (FTAA), effectively incorporating all North and South American states (except Cuba) into a trade bloc under US hegemony.

Fearing being left out in the cold, the Howard government has scrambled to cut a similar deal with the US. While still claiming to support multilateral processes such as the World Trade Organisation (WTO) and the Asia Pacific Economic Cooperation forum (APEC), it has also sought its own FTAs with Singapore and Thailand. Earlier this month, Australian Trade Minister Mark Vaile cast doubt on the current Doha round of WTO trade negotiations, declaring that it could end in failure, underscoring the need to secure an FTA with the US.

The full extent and precise scope of the Australia-US FTA (AUSFTA) will be determined in negotiations over coming months. No final treaty is expected before next year and some commentators are predicting that, in fact, nothing will be signed until 2005, that is, after the 2004 US presidential election.

Both governments have released long lists of the specific objectives they are seeking. The American list, set out in Zoellick's November letter to Congress, is more far-reaching. It seeks the dismantling of the export marketing boards for grains, sugar and rice; the elimination of quarantine and health standard regulations used to restrict US farm imports; and the abolition of labelling rules for genetically modified foods and other biotechnology products.

The list also features stronger enforcement of US patents and copyrights; complete deregulation of telecommunications and financial services; privatisation of state enterprises and the removal of foreign investment controls. At the same time, it

demands the retention of US farm subsidies, export credit programs, and anti-dumping and countervailing duty laws.

These demands are backed by the more than 200 major business interests that constitute the American Australian FTA Coalition (AAFTAC), whose members include General Motors, Ford, H.J. Heinz and Lockheed Martin, as well as major umbrella organisations, among them the Business Roundtable, the American Financial Services Association and the American Petroleum Institute.

Many of AAFTAC's affiliates have particular agendas. The pharmaceutical firms are seeking an end to the Australian Pharmaceutical Benefits Scheme, which subsidises locally-manufactured medicines. Rupert Murdoch's News Ltd wants to eliminate restrictions on media ownership. Telecommunications, airline and financial corporations are calling for the scrapping of foreign ownership restrictions on companies such as Telstra, Qantas and the big banks. The film, recording and television industries and the advertising agencies are lobbying for the elimination of direct parallel importing of recorded music and quotas on Australian children's television, drama and advertising.

The Australian government has refused to rule out acceding to any of these demands. According to Vaile, "everything is on the negotiating table".

Howard's policy is backed by major corporate interests, grouped together in the Australia United States Free Trade Agreement Business Group (AUSTA). Notable members include the Business Council of Australia, News Ltd, the Minerals Council of Australia, the Australian Chamber of Commerce and Industry and a string of companies that export or invest heavily in the US, such as Westfield Holdings, BHP Steel, Visy (Pratt Industries) and Southcorp.

These corporations have their own shopping lists for profit-making opportunities in the US. The official Australian objectives include reductions on agricultural and clothing tariffs, removal of barriers to the export of ship ferries, and relaxation of business citizenship rules.

But the aggressive US demands have triggered rifts within Australian business circles over the wisdom of signing an FTA. The National Farmers Federation and other industry groups that are more vulnerable to US rivals or more oriented to Asian markets have expressed grave reservations.

Reflecting these concerns, a report prepared by ACIL Consulting for the Howard government has estimated that an FTA would reduce Gross Domestic Product by about 0.2 percent, directly contradicting the government's claims, based on an earlier study, of an eventual 0.4 percent or almost \$A4 billion annual boost to GDP.

According to the ACIL study, the losses to Australian producers would be even greater if, as expected, US agricultural interests succeed in blocking the removal of protection on three key industries—sugar, dairy and meat. To achieve the gains trumpeted by the government would require

the reversal of the May 2002 US Farm Security and Rural Investment Act, which gave American agribusinesses billions of dollars worth of subsidies and export grants.

Having sought to suppress the ACIL report since last April, the government was forced to permit its release last week after it was widely leaked in the media. ACIL disputes the central assumption made by the earlier report, prepared by a right-wing thinktank, the Centre of International Economics, that an FTA would induce a significant productivity increase throughout the Australian economy as a result of greater exposure to US managerial methods.

This objection highlights the fact that much of the government's hoped-for boost to the economy would take the form of increased profits obtained from cost-cutting, involving the further wholesale elimination of jobs and working conditions.

ACIL also warns that much of the increased bilateral trade with the US would be diverted from Asian markets, which remain more important to Australian-based exporters than the US. ACIL declares that the FTA could "greatly irritate" other trading partners, such as China and Japan, and undermine Australian participation in the WTO. The report advocates instead the pursuit of so-called global trade liberalisation through the WTO Doha round.

ACIL and others have pointed out that 55 percent of Australian exports go to East Asia, whereas only 10 percent go to the US. But the government and its backers insist that Australia must align itself with the US because it is the biggest economy in the world, the greatest source of foreign investment in Australia (\$A235 billion as at 30 June 2001) and the largest venue for Australian investment overseas (\$A177 billion).

Doubts about the trade pact are feeding into nervousness about the implications of the Iraq war. Noting that an FTA was to be Howard's reward for loyalty to Bush, the *Sydney Morning Herald* editorialised on February 27: "Renewed doubts about the financial benefit to Australia of a free trade agreement with the United States are but the latest sign of concern that the Federal Government can sometimes allow political ambition to blinker its economic common sense."

The conflict points to the intractable dilemma wracking the Australian ruling elite, which is caught between aligning itself completely with Washington, on whom it depends militarily and strategically, as well as for investment, and developing its considerable economic ties with East Asia, risking US retaliation.



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