

US-Australia trade deal:

## Another step in the “Balkanisation” of the world market

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The first thing to be said about the Australia-US Free Trade Agreement (AUSFTA) announced last weekend is that it is something of a misnomer. This is not a free trade agreement but rather a preferential trade deal, part of a growing pattern of bilateral and regional trade arrangements that could eventually see the world market split into rival trading blocs.

The origins of the deal lie in the increasing push by the US—in the face of the breakdown of the World Trade Organisation meetings at Seattle (1999) and Cancun (2003)—to secure regional and bilateral agreements. In particular, the US is keen to obtain, as it did in this agreement, increased investment opportunities, as well as access for high-tech products and services.

On the Australian side, the agreement is the outcome of the decision by the Howard government to pursue ever closer ties with the US, especially in the face of increasing American unilateralism on the military and economic fronts.

The agreement was first mooted by a coalition of big business interests from both the US and Australia including, from the US side, Boeing, Alcoa, Exxon-Mobil, Coca-Cola, General Electric and McDonald’s and, from the Australian side, Visy, Westfield, Lend Lease and News Limited. In January 2002, Howard attended a key meeting in New York of business leaders supporting the FTA chaired by the media mogul Rupert Murdoch.

The business and geo-political issues that prompted the deal have been reflected in its central components and in the responses to its announcement.

One of the AUSFTA’s most significant features was the refusal of the US to make any concessions on sugar. As negotiations proceeded throughout 2003, Australian government ministers insisted that access to the American sugar market had to be included, with deputy Prime Minister John Anderson declaring that it would be “unAustralian” to leave sugar out.

But when the deal was announced, Australian producers received not one cube more. They had hoped to sell up to an extra 2.6 million tonnes a year, but will continue to send only 87,000 a year to the US market—less than one day’s total consumption. In an election year, the Bush administration was not going to risk opposition in the sugar growing states of Florida, Louisiana, North Dakota and Minnesota.

While there were a few gains for Australian agriculture—beef import quotas will be gradually lifted over the next 18 years, but only starting in three years time after US exports return to the levels reached before the recent outbreak of mad cow disease, and some concessions were offered on horticultural products, lamb and processed foods—the restrictions on entry to US agricultural markets remain largely intact.

Notwithstanding the commitments given by his government, and the possibility of a voter backlash in the sugar-growing electorates of North Queensland, Howard and his ministers decided that the agreement had to

proceed.

Accordingly, the prime minister hailed the deal as a “once in a generation opportunity,” making clear at the same time that there were more powerful forces than cane farmers pressuring his government. Having been criticised in the past—especially in the Murdoch-owned press—for slowing down on the “free market” agenda and pandering to special interests, particularly in rural areas, Howard was not going to risk the hostile reaction from big business interests that would have accompanied a rejection of the deal on the basis that it failed to include sugar.

“Without in any way downplaying the importance of traditional patterns of trade and investment,” he declared, “[the future] is very much bound up with the expansion of our service industries and our manufacturing industries.”

The major business organisations, comprising these service and manufacturing firms, readily agreed. The Australian Chamber of Commerce and Industry said the AUSFTA would provide Australian businesses with new market-access opportunities in “one of the world’s most dynamic and innovative economies.”

The president of the Business Council of Australia, Hugh Morgan, whose organisation consisting of 100 leading firms had been working to secure the agreement, was even more enthusiastic. The signing of the deal, he said, was an “historic moment” for Australia. It would provide “massive opportunities” for Australian companies to gain access to the world’s largest market, in particular the \$270 billion US federal government procurements market from which Australian firms have been largely excluded because of financial barriers applying to foreign companies.

The wider geo-political issues, in particular concerns over Australia’s position in a trade war between the major economic powers—the US versus Europe—were reflected in the comments of the Department of Foreign Affairs and Trade (DFAT). In the conclusion to its overview of the deal, DFAT declared: “Australia will now gain the benefit of preferred status as an FTA partner with regard to any future global safeguard actions [a euphemism for such measures as tariffs, quotas and other restrictions]—that is, we will be exempted from safeguard restrictions almost automatically, just as Canada was for steel and lamb.”

This issue was also addressed by the foreign affairs editor of the *Australian*, Greg Sheridan. The AUSFTA, he claimed, provided “deep defensive protection against future US actions or, indeed, the unravelling of global trade liberalization.”

For the Howard government, the trade agreement and the decision to join the US war against Iraq were but two parts of the same strategic orientation. Indeed, the decision to push ahead in earnest with the AUSFTA in November 2002 came within weeks of its unconditional

commitment to support US military action against Iraq, irrespective of any decision by the United Nations.

But there has been a level of disquiet in some ruling circles about the wisdom of Howard's "All the way with the USA" foreign policy. This has been reflected in the press coverage of the AUSFTA.

The Murdoch media, which backed the war, left no doubt where it stood. The *Australian* front-page story began: "The Howard government has moved to further tie Australia's future interests to the US, under a historic trade pact offering lucrative opportunities for manufacturing and the services sector."

By contrast, the *Sydney Morning Herald*, which voiced a degree of opposition to the war against Iraq, headlined its front-page story "US gets upper hand in trade deal" and declared that the AUSFTA "benefits America more than Australia." Inside, a comment by columnist Tom Allard, described the negotiations with the US as a test of the Howard government's shift to strong Americanism and its focus on bilateral trade deals. "On both counts, the agreement has raised serious questions about the wisdom of this approach."

Allard pointed out that Australia's participation in the Iraq war and Howard's close ties with Bush had "counted for nothing" in the negotiations. Deals by the US with Singapore, Chile and six central American countries, he noted, had all offered more than Australia achieved, although none of those countries had contributed troops.

These differences were also expressed in the two newspapers' editorial comments. The *Australian* editorial gave the agreement "two cheers" and pointed to the strength of national security, defence and cultural ties between Australia and the US "tempered in the furnace of war." It concluded by warning that the Labor Party "should ponder very deeply" before doing anything to hinder the agreement and called on new Labor leader Mark Latham to carry forward his professed agreement with trade liberalisation and "show that he really leads Labor by announcing that, while he is disappointed by aspects of the agreement, he will not snarl it up in the Senate."

The *Sydney Morning Herald*, on the other hand, insisted in its editorial that the decision to accept or reject the AUSFTA could only be made "once its full detail is open to scrutiny."

Even before that detail has been released there are questions about what the deal will actually bring. From the Australian side, one of the key issues is access to the US market for manufactured goods. But these goods will only receive the benefits of the agreement provided they meet so-called "rules of origin." An Australian manufactured product will only be able to enter the US market under the AUSFTA provided it contains more than a specified amount of Australian or US product.

According to an article by Ross Garnaut, a one-time economics adviser to the Hawke Labor government in the 1980s, and now professor of economics at the Australian National University, if the "rules of origin" turn out to be similar to the North American Free Trade Agreement (NAFTA) then "most Australian manufactured products would be excluded because they would have too many New Zealand, Asian and European components." This would mean that Australian manufacturers would tend to turn away from New Zealand or Asian suppliers and either obtain components at home or from the US in order to qualify for AUSFTA benefits.

Another area where the devil could prove to be in the detail is the pharmaceutical benefits scheme (PBS), under which listed prescription drugs are subsidised. In the negotiations, powerful US drug companies were demanding greater access to the PBS. Australian government negotiators insisted the PBS would remain intact and repeated this assertion in their public announcement of the agreement.

But the US and Australian assessments differed quite markedly. The US summary stated there would be "improvements" in the PBS procedures "including the establishment of an independent review process to review

determinations of product listings—that will enhance transparency and accountability." US drug companies hope that such a process will enable them to have decisions rejecting their products overturned.

The Australian government's statement on the PBS was short on detail, saying only that "transparency and timeliness" would be improved and that the companies seeking the listing of new medications would "have an input into the process."

According to Australian Consumers Association health policy officer Martyn Goddard, an appeals process for the PBS would be a "disaster" and only increase costs. "Every decision a company doesn't like," he told the *Australian Financial Review*, "will now go off to appeal, with teams of lawyers. Australian patients will have to wait months or years longer for access to new drugs, including drugs for conditions like HIV. The cost of the PBS will of course rise."

Another controversial area could be the rules governing media content. Last December actors, filmmakers and technicians organised a protest meeting demanding the protection of Australia's "cultural future" in any free trade deal with the US. Trade Minister Mark Vaile said the agreement retained Australian government control over local content rules. However US Trade Representative Bob Zoellick emphasised the increased opportunities for US companies. "The FTA contains important and unprecedented provisions to improve market access for US films and television programs over a wide variety of media, including cable, satellite and the Internet," he said.

While the debate over the AUSFTA within Australia over the next weeks and months will centre on whether its benefits outweigh the costs to "us", its real significance simply cannot be grasped when viewed within this narrow, national framework.

A true appreciation is only possible when the deal is placed within its global context. Then it becomes apparent that the AUSFTA is only a small part of a much broader process.

According to the WTO, the vast majority of its members—in contrast to the situation which prevailed only a decade or so ago—are party to one or more regional or bilateral trade agreements. There are more than 170 such agreements in force and an additional 70 in operation, although not yet notified to the WTO. And the rate at which such deals are being struck is accelerating. By the end of 2005 there could be as many as 300 regional agreements in force. This would mean that more than half of world trade would take place between countries bound by FTAs—up from 43.2 percent in 2000.

The significance of this rapid growth emerges from a consideration of the history of international trade, in particular from the 1930s onwards.

It is sometimes claimed that architects of the post-war trade and monetary arrangements—the team of New Deal economists under Roosevelt and the British economists led by John Maynard Keynes—put forward a program of free trade to replace the destructive protectionism and beggar-thy-neighbour policies of the 1930s.

That is only partially true. While there was an emphasis on free trade, tariff and other forms of protection were still very much part of the post-war trade environment. The central lesson drawn from the experience of the 1930s was that whatever the degree of free trade there had to be an end to preferential deals and agreements. That is, if tariffs were applied, then they were applied across the board. Likewise, if tariffs were cut and restrictions removed, then the new measures applied to all trading nations.

These principles, which were seen as crucial in preventing the return to the type of economic and ultimately military conflict which marked the 1930s, are being rapidly abandoned. Bilateralism, regionalism, and preferential deals are no longer an exception, but are rapidly becoming the norm.

According to former Clinton trade representative Charlene Barshefsky in comments made to the *Asia Times* of November 12 last year, while there is not a "return to 1930s policymaking" the "rhetoric [is] getting

uglier and uglier”. Preferential agreements are creating “a series of islands or island economic units” and there is a risk of “further Balkanising the global economy.”

Herein lies the significance of the AUSTFA. It is the latest expression of the deepening conflicts on the world market that are leading to the formation of antagonistic trade blocs, which, as history shows, can well be the prelude to war.



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