

Labor, and we, will live to regret US trade deal

By Ross Gittins
Sydney Morning Herald
November 22, 2004

Labor's bitterest memory from its wasted third term in Opposition should be its failure to do its job and block the appalling free-trade agreement with the US.

None of the Labor members who sat on the Senate inquiry into the FTA could have been left in any doubt about what a bad deal it is and yet they didn't have the courage to stand against it.

The bitter irony is that, because the Howard Government had done such a clever job of selling the deal to our dopey businessmen, Labor wasn't game to oppose it for fear of damaging its economic credibility.

As it turned out, however, Labor had no economic credibility to lose. (It was a pathetic tactic we're likely to see more of in the current term. Labor thinks the way to gain credibility is to say Me Too to the Government's bad economic policy - such as its unqualified promise to keep the budget in surplus through all eternity.)

Of course, some members of the shadow cabinet didn't care how damaging the free-trade deal was. They just wanted it ticked to prove Labor's support for the US alliance.

AdvertisementAdvertisement

I have no doubt we'll live to regret the FTA. Over time, our modest gains will be greatly outweighed by big costs. The Americans drove such an unfair bargain that John Howard should have walked away from it (as, it's strongly rumoured, his negotiators wanted him to), but he pressed on.

Which shows just how willing our supposed great economic helmsman is to put his own short-term political advantage ahead of the nation's long-term economic welfare. If you can't see that, you're a victim of the Government's propaganda - such as its dishonest parroting of a dubious econometric study purporting to find that, over the next 10 years, the deal will generate an economic gain rising to \$6 billion a year and will create over 30,000 jobs.

(Professor Ross Garnaut of the Australian National University demolished the study's credibility in a phrase, saying it failed to pass "the laugh test". You couldn't read its results without laughing.)

But if you can't see why the deal's so bad, I'm pretty sure I know why you can't. It's because you've focused on the traditional, trade aspects of the deal, failing to see that it's

really a deal about something most businesspeople know little about: the protection of American intellectual property.

You could see the Yanks were on about intellectual property from their last-minute quibbles, all of which were about IP.

Looking at the traditional stuff, the gains are quite small and there are hidden costs. There was really only one big thing the Yanks could have given us: access to their agricultural markets. But they gave us very little. All the rest - including the ballyhoo'd access to US Government procurement contracts - doesn't amount to much.

Until now I hadn't realised how easy it is to bamboozle Australia's businesspeople. They're suckers for boosterism. Mouth some line about how the deal gives us "economic partnership with the most dynamic economy in the world" and they're cheering in the streets.

In their ignorance they seem to imagine there have been huge barriers between Australia and the US which are now to be torn down, transforming out trading opportunities.

But the only major instance of huge barriers is in agriculture - and those aren't being torn down. Elsewhere, the barriers are ankle-high. In manufacturing, for instance, they're tearing down tariffs of 2 or 3 per cent, while we're eliminating our general tariff of 5 per cent.

The simple fact - which ought to be well-known to everyone - is that our two economies are already highly integrated. This deal won't change much.

Still on the traditional trade side, there are hidden costs. Exports in either direction will have to meet "rules of origin" before they're admitted concessionally. This will add a lot of red tape and, because of our high proportions of imported components, a lot of our exports won't pass the test.

Then there's the cost of "trade diversion": because of our preferential treatment of the Yanks, we'll be importing more of their stuff at the expense of stuff from our Asian trading partners - even when the Asian stuff is better or cheaper.

But far more important than traditional trade is the deal's provisions concerning the protection of American intellectual property rights - covering patents (including pharmaceutical patents), trademarks and copyright.

Note the word "protection". In return for all the fabulous concessions they made to us on the traditional trade side, and under the camouflage of Free Trade, the Yanks have extracted from us commitments to increase the protection our laws and courts give to the owners of American intellectual property embodied in the goods and services we import from them.

And note this: we are, and always will be, huge net importers of US intellectual property. So there's little reciprocity: we don't export much intellectual property to the US (or anywhere else). In this aspect of the deal, it's all downside.

For some time, the Americans have had as the dominant goal of their trade policy making the world a kinder, gentler place for US intellectual property exports (where they have an obvious comparative advantage).

What they're trying to do is get the rest of us to harmonise our IP law with theirs. That wouldn't be such a bad idea if their IP law was good law. But the economically corrupt US Congress has allowed America's IP law to be debauched by big corporations.

So much so that the Yanks have quite lost sight of the public interest justification for protecting IP: within limits, it's in the public's interest to encourage innovation by giving inventors and creators first crack at the profits to be made from that innovation.

But there *are* limits because what you're doing is granting businesses government-imposed monopolies. Lose sight of those limits and all you're doing is helping big companies rip off consumers (which, in the first instance, they do by ripping off other companies - a truth that doesn't seem to have dawned on our businesspeople).

One reason it took so long to realise the deal was such a bad one was the Government's repeated insistence that it had given the Americans nothing - not on the Pharmaceutical Benefits Scheme or anything else.

But if that were true, how come the Americans kept telling each other how well they'd done and what an excellent template they'd established for deals with all the countries in the queue behind us?

How could these conflicting versions be reconciled? I think it's simple. The Government defended the here and now but sold our future to the Yanks.

Consider, as just one example, our local-content rules for TV. We're allowed to keep the rules we've got but, should we ever decide to reduce the local-content proportion, we'll never be allowed to raise it again. And we've agreed not to impose local-content requirements on any new media that emerge in the future.

The further we get into the future - on local content and many other things - the more we'll realise how much of our sovereignty we've given up and how much we're being pushed around by greedy US corporations.

If Labor happens to be back in government by the time the bills start mounting, it will have only itself to blame.

Ross Gittins is the Herald's Economics Editor.