

Australia - China Free Trade Agreement: Feasibility Study Flawed

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Decisions first, evidence later

On 18 April, the Australian Government announced the start of negotiations for a Free Trade Agreement (FTA) with China. A Joint Feasibility Study was meant to be released for public scrutiny *before* any decision was made to start negotiations. But this did not happen. The Feasibility Study was released the day *after* negotiations were announced. This 'decisions first, evidence later' approach is unacceptable in a democracy. It allowed no time for community or parliamentary debate about the impacts of an FTA on human rights, workers' rights or the environment in China or Australia.

China is already Australia's second largest export market and third largest source of imports. The question is not whether we should trade with China. The question is whether we should have an agreement to remove all trade barriers with China, when the low prices of China's exports rely on poor environmental regulation and failure to comply with China's own labour laws and international labour standards.

Feasibility Study misleading and flawed

The Feasibility Study predicts a \$24 billion boost to Australia's GDP over 10 years to 2015 if the FTA proceeds. But this prediction is misleading. This amount is calculated on the basis that *all* tariffs will be removed across *all* sectors by 2006. This is an unrealistic scenario for 3 reasons:

- It is unlikely the FTA will even be signed by 2006. The Government expects negotiations to continue into 2007.
- It is unlikely that the FTA will lead to immediate tariff reductions. FTAs often have a 'phase-in' period for tariff reductions and the Study concedes that any phase-in would reduce the expected benefit by at least 25 %.
- It is unlikely that the FTA will apply to all goods in all sectors. The biggest gains from the FTA are predicted to come from the services, investment and agriculture sectors. But it is in these sectors that China is most reluctant to give concessions. The Feasibility Study has been carefully worded to say that FTA negotiations will cover "all sectors" not all products across all sectors, which leaves room for carve-outs, as played out in the US FTA.

The economic modelling in the Feasibility Study is based on unrealistic assumptions. As economic commentator David Bassanese explains, "almost by definition, these models would show gains from an FTA – even if we get squat from the other side" (*Australian Financial Review*, 22/4/05, p66). For example, the model does not account for indirect loss of competitiveness as some industries collapse. The model also assumes full employment, which means that workers can glide effortlessly from one job to another. The more likely scenario is that workers who lose their jobs in regional communities will remain redundant, with little choice of other employment.

"We can't teach car makers to become computer programmers overnight. In reality, such sectoral change ... comes at the cost of leaving a rump of newly redundant workers on welfare for the rest of their working lives."

David Bassanese (*Australian Financial Review*, 22/4/05, p66)

Community concerns ignored

Many community groups and individuals made submissions to the Feasibility Study. Despite this, the Feasibility Study makes no mention of workers' rights, or environmental protections. The Government's response is that these issues have no role in trade agreements.

"For governments and employers to say that the rights of working people have no place in the discussion around trade is simply to say that neither business nor government has any concern about how working people are treated in their own country or another country – that's not a very humane approach to either democracy or development."

Sharan Burrow, President of Australian Council of Trade Unions (*Australian Financial Review*, 21/4/05, p60)



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Trading off workers' rights and the environment in China

China's economy is booming, but many Chinese workers are left behind in this boom. The official trade union in China is aligned with the Government and workers lack effective rights to organise and bargain for improved conditions. Transnational corporations move investment to China from countries like Mexico and Thailand, as well as Australia, to take advantage of the lack of labour rights and environmental standards.

Over 90 million workers, mostly young women from rural areas, work in China's Special Economic Export Processing Zones. In these zones, transnational corporations subcontract orders to factories and accept the lowest bid. Workers must work until the contract is completed, which often means working 14 – 16 hour days, 6 – 7 days a week and real wages have actually fallen over the past 12 years (Anita Chan, "A Race to the Bottom", 46 *China Perspectives* 2003, p41 – 43). Under China's Trade Union Law, the right to strike is not protected and workers attempting to strike can be punished or even imprisoned. China's manufacturing and mining industries are among the most dangerous in the world. Over 6000 Chinese miners died in 2004 (*Australian Financial Review*, 15/3/05, p61).

Industrial waste from factories in these zones is a problem for communities and for the environment. Acid rain falls on one-third of Chinese territory, the urban air quality has led to a drastic increase in respiratory disease and rivers are heavily polluted, meaning that many communities do not have access to clean drinking water (German magazine *Speigel*, Interview with China's Environment Minister, 7/3/05).

Community impacts in Australia and China

The China FTA will lead to large job losses in some Australian industries. Australia's main imports from China are clothing, footwear, toys and other manufacturing goods. Australia already has low average tariff rates and further reductions will lead to factory closures and job losses, often in regional areas of high unemployment.

For example, in the clothing industry the Feasibility Study predicts that the FTA will lead to \$671 million of extra clothing imports from China by 2015. The Textiles, Clothing and Footwear Union of Australia estimates that as many as 21,000 clothing industry jobs would disappear under an FTA. Similarly, the car and car parts industry will face increased competition. There are already reports that Tri Star Engineering, which makes steering and suspension components, will relocate to China (*Fairfax Digital*, 3/5/05). The fruit and vegetable industry predicts that local growers may lose \$500 million a year and 5000 jobs under the FTA,

because they will be unable to compete with China's lax regulation of pesticide residue and contamination (*The Age*, 22/4/05).

"My concerns are about the future of one million manufacturing jobs. My concerns are about the de-industrialisation that John Howard is presiding over in this country."

Doug Cameron, National Secretary of Australian Manufacturing Workers' Union (Interview with *Meet the Press*, 24/4/05)

China's rural communities are similarly under threat from the FTA. The World Bank reports that China's rural poor have suffered a 6% drop in living standards since China's accession to the World Trade Organisation (*Agence France Presse*, 21/2/05). A Chinese trade advisor has warned Australian negotiators that the "livelihoods of 3 million herdsmen will be hurt to some degree if a huge volume of Australian wool enters the Chinese market" (*Sydney Morning Herald*, 20/4/05, p8).

What can you do?

The Australian Fair Trade and Investment Network (**AFTINET**) is a network of 90 organisations supporting fair and democratic regulation of trade consistent with human rights, workers rights and environmental sustainability. Use the message on our website (www.aftinet.org.au) to tell the Trade Minister that you support:

- Implementation by both Australia and China of international standards on workers' rights and environmental sustainability.
- Full public and parliamentary debate on the social and environmental impacts of the FTA before any agreement is signed.
- Effective and transparent community consultation, with sufficient time frames to allow informed public debate.

See www.aftinet.org.au to join AFTINET and receive regular updates on trade issues.

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