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Why the Nick Xenophon party is against free trade fundamentalism

By Nick Xenophon

Alan Oxley provided a perfect exposition of fundamentalist, free trade orthodoxy [in The Australian Financial Review on Wednesday](#).

Oxley has enjoyed a long career promoting free trade deals, [first as a senior trade bureaucrat and then](#), for the past 25 years, as a highly paid trade consultant. FTAs have been his bread and butter so he's hardly a disinterested commentator.

Oxley thinks that Australian manufacturing should wither on the vine. He sees the decline of manufacturing as inevitable, natural and indeed something to be welcomed. He's opposed to any notion of industry policy. Indeed his commitment to ideological free trade policies is much more extreme than the Coalition government.

He's entitled to his opinion, but I beg to differ. And I'm not alone in this.

As the Productivity Commission has revealed, predictions of growth and jobs from free trade agreements have rarely been delivered because the economic models employed exaggerate the benefits, ignore many of the costs and assume away unemployment effects.

The Australian National University's study of the outcomes of the US-Australia free trade agreement after 10 years showed the preferential agreement diverted trade away from other countries. Australia and the United States have reduced their trade by \$US53 billion (\$71 billion) with the rest of the world and are worse off than they would have been without the agreement. That study concludes that "deals that are struck in haste for primarily political reasons carry risk of substantial economic damage".

The Coalition government has claimed that Australia's FTAs with Japan, South Korea and China will lead to tens of thousands of additional jobs. Yet the government's own economic modelling, by the Canberra-based Centre for International Economics, estimates that by 2035 those three FTAs will have produced a total of only 5400 additional jobs. That's less than 300 jobs a year.

'Import agreements'

The same study indicates that the three North Asia FTAs – with Japan, Korea and China – taken together will boost total Australian exports by only 0.5 per cent. They'll boost imports by 2.5 per cent. These FTAs are more like "import agreements" than export agreements.

I am not against the expansion of trade or negotiating free trade agreements. Trade is the lifeblood of our economy. But we need to take a more strategic approach to trade; indeed a much more hard-headed approach that supports a diverse economy including our manufacturing industry.

Manufacturing is in crisis. Over 200,000 manufacturing jobs have disappeared since 2008, and the rate of job loss has accelerated. Manufacturing employment fell 6 per cent in 2015 alone.

There was never anything inevitable about this. What we have been witnessing has to a large extent been driven by the policy decisions of successive governments. The decline in Australian manufacturing output and employment is not typical of other industrial countries. Australia is well behind our counterparts – and now has the smallest share of manufacturing in total employment of any OECD country.

All successful manufacturing nations, the United States, Japan, Germany, South Korea, and others have negotiated trade agreements that expand trade but still enable them to use government procurement and other active government policies to develop globally competitive manufacturing industries.

The Coalition government has negotiated poorly in the South Korea, Japan and China free trade agreements, conceding far more than our trading partners. They have struck deals at any cost, going for quantity, not quality.

The "success" of this policy is evident in Australia's huge current account deficits. In 2015, Australia exported just under \$100 billion in total value of manufactured products, but imported \$246 billion. The deficit in manufactures is the biggest single contributor to Australia's ongoing current account deficits which have driven rising international debt, now exceeding \$1 trillion.

I want Australia to adopt a much more hard-headed approach to trade and industry policy. That's what I've been about – arguing for greater parliamentary scrutiny of our trade negotiations, urging assessments of the costs and benefits by independent bodies such as the Productivity Commission; seeking an overhaul of government procurement laws to ensure the Australian, state and local governments take into account the social and economic benefits of local procurement, and pushing the Australian government to look at the wider national interest in supporting a diverse economy in our trade negotiations.

Alan Oxley uses the term "protectionist" as a term of abuse. If standing up for Australian manufacturing industry and the jobs of Australian workers is protectionist, then that's a badge of honour I'll happily wear.

Nick Xenophon is an independent Senator for South Australia