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A 'New Trade Framework'?

By Evan Rogerson

Synopsis

This month's high-level meetings in Asia highlighted some fundamental changes in the global trade and economic environment. The US retreat from leadership leaves a gap that other economies need to fill together. The restart of the TPP is a positive sign, albeit sans the US. So is the growing influence of smaller players.

Commentary

THE RECENT series of high-level international meetings in Southeast Asia has made more of a difference to the economic and trade environment of the region and its partners than such events usually do. Fundamental changes are becoming clearer in the alignments and assumptions that have underpinned policymaking for decades.

The retreat of the United States from leadership in the trading system was already apparent. It had in fact begun under the previous administration, to the extent that they emphasised plurilateral or sub-regional negotiations over the multilateral system. Now, however, the Trump administration's line is altogether harsher and more sweeping. Trade negotiations are to be driven by a narrowly mercantilist bilateral approach based on an emotive but illusory concept of sovereignty.

Gap Left by US Retreat from Leadership

Insofar as President Trump's statements on trade have a consistent theme, this is it. The US administration's insistence that it is the loser in multilateral and plurilateral trade deals is not supported by the evidence, any more than its claims of being victimised by the WTO dispute settlement system. Nonetheless they appear to be well entrenched and largely resistant to argument.

Some have taken comfort in suggesting that the Trump administration's actions on trade have not been as harsh as its rhetoric. It is true that it has held back so far from the most extreme actions against China, but leaving the Trans-Pacific Partnership (TPP), reopening the North American Free Trade Agreement (NAFTA) and burying the Transatlantic Trade and Investment Partnership (TTIP) are already very significant policy shifts with real impacts on business and on the outlook for growth.

The investigations that the administration has launched in several sectors threaten punitive results, and perhaps most worrying of all is its continuing blockage of appointments to the WTO Appellate Body, which could bring the dispute settlement system to a halt.

Chilling Effect

The chilling effect on the institutions of international economic co-operation is real. The Asia-Pacific Economic Cooperation (APEC) forum, like the G20 earlier in the year, ran into the wall of US unwillingness to reaffirm the value of the multilateral trading system and spent six days negotiating a form of words that was weaker than last year's.

This is not a good sign for the next major international trade meeting, the WTO Ministerial Conference in December.

For the past 70 years US pre-eminence in the trading system has been a given, both welcomed and resented. It has no clear replacement in that role. There are those who look to China to fill the leadership gap left by the US. While President Xi Jinping's statements have been supportive of the rules-based multilateral system, experience is mixed about how this support is playing out in practice and in any case the Belt and Road Initiative is the main focus. Little leadership can be expected of the other BRICs.

The EU is preoccupied by internal issues and is also actively pursuing bilateral deals. And some African countries are persisting with a defensive approach which extends to refusing the possibility of talks on e-commerce rules.

New Reality: More Fluid, More Dangerous?

The new reality is a much more fluid and fragmented trade policy world than we have known. It is also a less predictable and more dangerous one, where the checks on protectionism are weaker. It calls for a wider assumption of responsibility by those governments who still see the benefits of open and stable trading relationships, plurilateral or multilateral.

This is why the agreement to go ahead with the resurrected TPP sans the US or TPP-11, officially known by its new name Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), is so important. At the same time as the US president was turning the trade clock back to the 1930s, the 11 TPP governments delivered a message that co-operation can go on without the US.

Of course the economic weight of the deal will not be the same; even with Japan, the

third biggest world economy, CPTPP will account for around 15% of world trade volume as opposed to 26.5% with the US included. Nonetheless its importance to the economies involved is considerable, and its political significance is even more so.

While some Intellectual Property provisions put in at US insistence, have been suspended, and some controversial elements like Investor-State Dispute Settlement are being softened, it remains an ambitious and far-reaching agreement that can serve as a model for other plurilaterals and, hopefully, for progress at the multilateral level.

A number of governments, New Zealand's and Vietnam's for example, have made compromises to keep the deal alive. Japan's leadership has been noteworthy: while it does not aspire to fill the overall gap left by the US, the Abe government has made a definitive and welcome break with the defensiveness of the past.

Small Economies, Big Difference

Even more noteworthy is the role of the smaller economies in promoting and sustaining not only TPP but other trade initiatives. They have led the way on issues and kept them moving in the face of great-power standoffs. TPP began as the P4, after all.

Singapore is placing priority on E-Commerce as ASEAN chair next year. In fact, Singapore is right now giving a master class in how a small player can show leadership. It has made a proposal for a decision at the WTO Ministerial in Buenos Aires that would improve transparency in the operation of permitted export restrictions on agricultural products and so help food security.

It would also prevent export restrictions affecting supplies for the vital work of the World Food Programme. Singapore has done an outstanding job of building support for this proposal, which should stand a good chance of success.

This would be a modest but significant win for multilateralism, both in terms of its specific benefits and – even more importantly - for its systemic implications. Together with CPTPP, it is a clear pointer to the direction in which the trading system has to go if it is not to remain paralysed waiting for leadership from the major economies.

Trump claims he has “established a new framework for trade”; in fact he has simply weakened the existing framework and it is up to others to renew it.

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