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New Nationalism in Trade: Regional Responses

By Evan Rogerson

Synopsis

As economic nationalism rises in some industrialised countries, the public and private sectors need to unite to defend the system that has underpinned growth.

Commentary

IN 1998 world leaders from Fidel Castro and Nelson Mandela to Bill Clinton and Tony Blair met to celebrate the 50th anniversary of the multilateral trading system. Now, trade agreements are being rejected by political leaders in some industrialised countries and economic nationalism is resurgent.

The public and private sectors in this region need to unite in defending the system that has underpinned its growth. In fact, the problems of the older industrialised economies have more to do with a failure to adjust to de-industrialisation.

Backlash Against Globalisation: Asia Not Immune

Long-term policy failures in key sectors - education, social investment, regional policy, infrastructure - have left people in the former industrial heartlands marginalised and resentful. Trade, like immigration, has become a lightning rod for this resentment and populist politicians are only too willing to exploit it.

If there is little sign so far of a similar anti-globalisation backlash in Southeast Asia, this can be ascribed to better economic growth, productivity and job creation, a relative lack of “rustbelt” industries, investment in education and upskilling, and willingness to embrace new technologies.

The benefits of global value chains are still more apparent than any downside, and the memory of past poverty still fresh enough to counteract nostalgic nationalism. There are no grounds for complacency, however. For one thing, as economies mature they begin to confront some of the same structural problems linked to higher costs and relatively slower growth combined with rising expectations. It would be unwise to assume that there is a long-term Asian immunity from the resentments that have surfaced in Europe and the US. And, of course, the region has its own trade tensions.

Furthermore, the global integration that has fuelled growth has increased interdependence. This is already apparent in the repercussions from the Trump Administration's decision to pull out of TPP, in which this country and its regional partners have invested heavily.

Then there is the uncertainty factor. The overall trend in the United States, for example, appears to be towards a more narrowly nationalistic view of trade, emphasising bilateral reciprocity and the reduction of trade deficits. However, we still do not know how this will play out in action.

Even if we avoid the most disastrous scenarios, a global climate of unpredictability is not a good basis for planning or investment in either the public or the private sector.

Positive Trade Narrative: Private Sector Can Help

The new trade nationalism calls for an effective and rapid response. There are several possible elements, one of which is shaping a positive trade narrative.

It is true that job losses in some sectors can be attributed to competition from imports. It is equally true that many more jobs depend on trade. In any case, changing technology is a much more important factor, accounting for around 8% of manufacturing job losses. These jobs will not come back by putting up barriers and limiting opportunity.

There is no reason why the success stories of trade agreements in terms of job creation and upskilling cannot be communicated with just as much immediacy and empathy as the negative story. Of course, it takes someone to invest money and commitment. This is an area where business groups could make an important contribution.

The private sector also needs to renew its active support for the multilateral system. After all, the Trade Facilitation deal is evidence that the WTO can indeed deliver results that are of direct relevance to business. Furthermore, whatever the pace of negotiations, the business sector continues to need the security and predictability of the multilateral rules.

The WTO Secretariat has been stepping up its outreach to business, but it has institutional constraints. Business groups themselves could usefully take a lead, for example in establishing regular consultative processes like those that exist in APEC and ASEAN.

Government Action as Back-up

The positive trade narrative needs to be backed up by government action.

The effort being made to continue the Trans-Pacific Partnership (TPP) without the US is important. The ASEAN Economic Community (AEC) is another positive example, as are the Regional Comprehensive Economic Partnership (RCEP) negotiations and the APEC trade agenda.

In their differing ways, these initiatives all make a positive statement about the will of governments in the region to pursue open trade policies. Given the economic weight of the region such a commitment carries global weight. Singapore's chairmanship of ASEAN next year can help keep the focus on key areas like the digital economy, as the Trade Minister has indicated.

Reinforcing the structures of international trade and economic co-operation is also important. The 2008 financial crisis proved the worth of WTO rules and commitments in countering the sort of protectionist stampede that turned the events of 1929 into the Great Depression.

The WTO Ministerial Conference in December this year will be an important opportunity to reaffirm the value of the system. This must mean actions as well as words.

Governments should implement WTO commitments fully and promptly. This is particularly relevant to the findings of Dispute Settlement cases, as the credibility of the system rests on it. But it is also true of a range of other existing commitments.

One immediate need is to ensure that domestic procedures are in place to implement the Trade Facilitation Agreement, which has just entered into force. Governments also need to ensure that traders are fully aware of the advantages the Agreement offers them.

Smaller Players are Important

At the government level, smaller players can make a big difference. There are many cases of smaller countries taking a lead in developing ideas and positions that have influenced the direction of the system. If they act together their effect is multiplied. TPP began as the P4, after all. The Cairns Group did much to define the agenda for agriculture negotiations.

Singapore is the prime example of a smaller economy exerting disproportionately significant weight in the multilateral trading system. It has been doing so at least since it hosted the first WTO Ministerial Conference in 1996.

This region depends upon a stable and open trading system; its leaders, government and business alike, have the strength and credibility to defend it effectively. They should unite in doing so.

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