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Gap between trade and trade policy

Trade and trade policy: you have heard already about how trade integration is being led by businesses and markets at the moment rather than by policy in the APEC area. I think you can generalize that in the world. In fact, I think you can say that there has never been a better time in the modern era of trading, since the Second World War, where there has been a bigger contrast between what is actually happening in world trade and the mood of the people who are nominally in charge of regulating it.

WTO numbers came out last week – there was 8% growth in trade last year. China, by the end of the year, will become the world's second largest trade exporter and probably the world's largest trade exporter by the end of the year. Trade will probably grow by 6 to

7% this year – it has had an astonishing run. No way is that more evident than in this corner of the world, - within APEC and particularly in East Asia.

As we all know, the world has assembled itself into a factory assembly line and in particular, Asia. What's remarkable is not just that it has assembled itself, but that it has been able to cope with the rise of countries like China without enormous dislocations in unemployment; without vast protests against the effect of those changes on jobs, at least in this part of the world.

No doubt, there are continued challenges to doing that and there are a number of countries – such as Malaysia, Indonesia and the Philippines - who have gone way up the value chain; in some ways, got slightly stuck or have not gone as quickly up as they might have hoped and are now seeing China coming up the value chain towards them; and there is an enormous challenge for them in how they cope with that. Nonetheless, they seem to be coping with it pretty well. Next week, I'm going to drop in on the Philippines and see how they are dealing with it. I can tell you one way in which they are dealing with it – a number of jobs have just been created in Manila, remote-editing the website for a leading international business newspaper, headquartered in London. So all my colleagues, who have blithely been talking about outsourcing all these years and generally thinking it's a good thing, are now slightly concerned that outsourcing, as it were, are coming home.

This stands at sharp contrast to what is actually happening with policy. Every time one of these little spats comes up, or big spats come up - such as the European attempt to block Chinese textiles and garments from coming into the European market; or the U.S. attempt to do the same; or France's blockage of the takeover of Danone, which indeed had Nicolas Sarkozy behind it - it's very interesting to hear people talk about investment protectionism and the importance of free investment. Somebody leaked to me the other week, a draft copy of the Group of 8 communiqué - the Group of 8 rich countries who will meet in Germany in June. There is a long section on investment protectionism; and it has a really quite strong language saying that only in overwhelmingly strong, convincing cases of national security should there be restrictions on national ownership of investment. Now if Nicolas Sarkozy - as he appears to be en route - becomes the President of France, I think we can look forward to him explaining to everyone why the French strategic control of their yogurt industry is necessary for the maintenance of the Fifth Republic.

But in reality, none of this has had that much of an effect, as yet. Trade has continued to grow; but trade agreements have played almost no role in it over the last 5 or 10 years. As far as I can tell, they are not going to play much role in the near future either.

On Doha

First of all, Doha - Don't hold your breath as I would say on Doha. I think the chances of a deal in Doha, before there's a new president in the White House, are less than 25%. The reason is as follows: to work out how trade agreements work, you have to think how politicians think. There is nobody that cannot afford for Doha to fail - that is the point. If you ask a politician, they will always tell you the first thing that comes to the top of their head - is not how can I do a deal for one of my constituencies, but which of my constituencies can I not afford to ignore? Whether it's rice farmers in New South Wales

or coal miners in Yorkshire; whether it's sugar farmers in northern France; whether it's the National Rifle Association in America; whom can I not afford to disappoint?

The problem is that there is almost no one who cannot afford to be disappointed by Doha. By concentrating on agriculture, you've simultaneously - this is within Doha - picked the issue where countries are most defensive for reasons as often as much as national identity as anything to do with actual economy. And you've also picked an area where there are few - we're in one now - very good, very efficient agricultural exporters, but not ones whose economies are going to fall apart if they don't get market access. I was not around at the time, but people who were involved in the Uruguay Round told me that one of the reasons that the Uruguay came to a successful conclusion was because the companies pushed, particularly from the U.S. And rather uncomfortably for those of us not quite sure whether intellectual property rights should belong in trade agreements or not, the pharmaceutical industries and other companies who overwhelmingly wanted there to be an IPR protection saw the Uruguay Round as the way to do it, and pushed and pushed, and pushed. It took a decade to do it and it took a lot of money; and it took a lot of funding think tanks; funding politicians' campaigns; and pushing, and pushing to make that happen. There has been nobody doing that from the beginning of Doha and there is no one doing it now.

On the other hand, there are lots of people who could lose a great deal. I had an email actually from my colleague who covers trade in Washington - in fact, just this morning. He said - which I've also heard before - there is a widespread belief in Washington that some countries, in particular India, just don't want a deal. They absolutely do not want one. And you know what? I don't blame them. Politically, if I were a politician, I would not want a deal either. The only reason the Congress government is in power at the moment - to its own surprise and in fact, to everyone else's surprise - is that the previous

BJP government had ignored the villages. They spent too much time talking about India shining and the great growth in IT; and development and so on; and found themselves unceremoniously booted out by the farmers who felt that they had been ignored. Signing a deal in Doha, which allows American subsidized rice to pour into India – or in fact, unsubsidized Vietnamese rice to pour into India is a very good way of following them out of office.

Those economies that might have played a big role in pushing for a deal in Doha, have also decided not to do so for tactical reasons. One is China. China has actually been called on by the EU and US to play a bigger role in Doha in pushing for a deal – and they've declined to do so. Again, I think that is tactically brilliant – that's exactly what I would have done in their circumstance. China is annoying enough people as it is by being very, very good at making things and exporting them, without compounding it by throwing their weight around in global trade negotiations. So, there is really no one strongly pushing for a deal in Doha and there are lots of reasons not to sign one. And that is the overwhelming reason why we are not going to get a deal any time very soon.

Bilateral agreements over Doha

So, we don't have Doha – instead we have bilaterals. And what you can see in this region at the moment is what I would call the tragedy of bilaterals playing out. Everyone does what is quite sensible for them at the time, but you end up in a place where no one really wants to be.

People sign bilaterals for two reasons: 1) because politicians like signing things. I'm sure we're familiar with the politician syllogism – first premise, we must do something; second premise, this is some conclusion therefore we must do this – but as you know there is real liberalization that goes on as a result of bilateral trade deals. Unfortunately, people who try to follow it can't follow it - can't always completely

follow it – and you end up with a situation maybe worse than nothing. Let's take the example of the US and Korea trumpeting their bilateral trade deal. We know that there are a bunch of people losing out, or will lose out, as a result of the US-Korea free trade deal. Australian beef farmers who against American beef go into the Korean market at preferential terms; Taiwanese electronic computer exporters who will now be competing with Korea exporters into the US at preferential terms; and Japanese car makers.

Now, you could say that they should all go sign deals with the US and/or Korea - which of course they will – but, unfortunately, by signing deals like the US-Korea one, 1) you create a series of unfortunate precedents by completely carving out rice, for example, you have established the precedent that agricultural sectors can, in their entirety, be carved out. So, countries which would like agricultural market access, as a result of FTAs, are going to lose out. 2) Not all countries can actually sign matching deals. To start, not all are going to be big enough. It's fairly easy for Korea – you are the US's seventh biggest trading partner – to sign a deal; but to try and persuade, for much smaller economies, to try and persuade America to overcome resistance within the Congress, you need to dangle quite a bit of market access in front of them. If your economy isn't big enough you won't get the exporter interested and overcome opposition in the Congress. 3) Economies like Chinese Taipei, there are obvious political constraints to signing a deal with the US, which would make it very difficult for them.

So, in principle, it is of course possible to get all these little patchwork bilateral deals and knit them together into a big quilt of liberalization. We know the way that you would do this. PECC itself has done some terrific work on writing down what some of the principles would be and ought to be for FTAs that actually build together into multilateral trade liberalization. Unfortunately, they are routinely ignored in any deal that is actually signed.

Even the US-Australia deal had phases in periods of up to 18-20 years for some products – way beyond what the PECC guidelines suggested. Rules of origin - which are dull and extremely important about how many imported goods you are allowed to use to export to another market – are very complex in the actual deals that have been signed. Some of them are limited by product, and in general, do not allow countries - which have signed a bilateral with another country – to sign another bilateral with another country. Simply by doing that, creates a trade region that contains all three.

There are some agreements that are very strong. The Australia - New Zealand agreement is actually quite a strong, good, clean deal. But Australia and New Zealand economies are both at a similar level of development and obviously with all those historical and cultural ties; it is very difficult to generalize that into different economies. You can see this as well in other agreements – the US has attempted to sign with Thailand and Malaysia where there has been much opposition to what the US has attempted to do.

Political motivations

The other problem with bilateral trade deals is the politics. A lot of them are done for political reasons and that sounds great, except that once you sign them for political reasons, people can stymie them for political reasons as well. If you want a view of what the future would look like for this region – just look at Latin America. A whole bunch of bilateral trade deals; a regional trade deal that was supposed to unite the entire subcontinent, Mercosur is now being stymied partly because Venezuela has just joined it. Call me a cynic but I don't think Hugo Chavez is joining Mercosur because he is having difficulty finding export markets for oil. I think he is joining Mercosur, quite rightly, as a Brazil-led attempt to assert authority within the region – and who wants to challenge it? So deals that are created for political reasons can also be undermined for political reasons.

That brings me onto the other option, which is regional. I have not left much time to talk about the free trade area of the Asia-Pacific, partly because it is so massively implausible. You have all the drawbacks of Doha within the FTAAP with the exceptions of the EU and India – the one thing to be said in favor of the FTAAP. It's like going on an extended family holiday but without the two most annoying cousins. Nonetheless, it's got all the problems that Doha has as well. It has very defensive agricultural interests in the emerging markets – Malaysia, Indonesia whose interests are clashing with emerging market exporters like Thailand and Vietnam. You have rich, defensive, agricultural countries like Japan whose interests clash with the rich, agricultural exporters like the US. You have rich oil exporters like Russia. You have a vast range of economies even within ASEAN, never mind APEC, that can't really ever be brought together.

Businesses lead the integration and governments follow

The free trade of the Asia-Pacific is not a viable option in the medium or even in the long-term; nor really is it a spur of liberalization elsewhere because it is not a credible threat. So what I've just heard about businesses leading the integration and governments following along, and trying to help wherever they can, seems to me absolutely, eminently sensible. That seems to be the way to proceed.

I will end with a quote from a man called: Alexandre Auguste Ledru-Rollin, who helped to lead the utterly abortive and failed 1848 revolution in France. At this point – he was watching the Parisian mob doing something - "There go the people, I must follow them – I am their leader". I think that is substantially true of free trade in the Asia-Pacific. A lot of very good companies are getting on and selling things abroad. It is them, and not the trade bureaucrats who are following behind, who are genuinely pushing the integration of the region.