

Keeping the trade bicycle moving forward

The DDA is dead. Long live KORUS, the TPP and the FTAAP – so say APEC and the G20, between the lines, at least. And if you manage to wade your way through this “acronym soup”, there is actually something quite important here. I promise.

Outside the logistics industry, the world of international trade negotiation is as impenetrably acronym-laden as any I know. Some perhaps think this insiders’ code language is cool. I must confess I find it impossible – especially in those notoriously sleepy conference sessions that happen straight after lunch.

Needlesstosay, those of us attending the recent Yokohama APEC (Asia Pacific Economic Cooperation) leaders meeting (and no doubt the Seoul G20 held just before it) were subjected to as rich an acronym diet as any I remember. So long as you could stay awake through the experience, you realized something very important was going on.

First, and perhaps most significant of all, Obama’s administration has at last turned its attention to international trade. The pressure to do so was strong – after all, the US ascended to chairmanship of APEC at the Yokohama summit, and is now tasked to drive the APEC trade agenda for the next 12 months, up to Obama’s crescendo – the next APEC leaders meeting in Honolulu in November 2011. After a surprisingly busy and productive APEC year under Japanese chairmanship, and the prospect of a groundbreaking Russian chairmanship in 2012, there would have been red faces, and much loss of diplomatic face, if the US left APEC to languish for the next 12 months.

I suppose we should be under no illusions. An Obama administration wounded by November's mid-term elections is never going to stray far from its domestic agenda. But Obama has turned to APEC for very domestic reasons indeed – he wants to restore growth, and to create jobs. As the realization deepens that America's domestic economy is going to create little of either for perhaps years to come, and as news gets daily worse from Europe, that leaves no choice but to turn for salvation to the Asia Pacific region.

Two things above all others made it clear that the US commitment to Asia and trade had turned for the better: the first was the breakthrough on KORUS – the Korea-US Free Trade Agreement, which has languished for around three years in spite of being recognized as hugely beneficial to US exporters. The KORUS deal may not yet be home dry – it has been approved by the White House, but still has to win Congressional approval – but the vibes are good, and the White House move alone is an important signal.

The second is the US commitment to completing a TPP by the time leaders meet with Obama in Hawaii 11 months from now. TPP is the Trans-Pacific Partnership. It is an aggressively liberalising “high quality” free trade agreement first conceived by New Zealand, Singapore and Chile around five years ago. The TPP idea was until recently dismissed – after all, its founding members may be highly liberal economies, but they don't count for much in global trade or GDP terms. Even when Australia, Brunei and Peru signed up, it was politely ignored.

But then in 2009 things got serious. Vietnam and the US joined the negotiations. Then, unexpectedly in Yokohama last month, Malaysia signed up, and – even more dramatic – Japan asked to join. That makes 10 economies, and a significant chunk of

global trade. The addition of economies like Japan, Malaysia and Vietnam, which face formidable challenges in opening up certain of their heavily protected sectors, adds complexity to the negotiations, but at the same time makes them more meaningful. Bets are high that in the wake of the KORUS deal, Korea will seek to join.

People are also discretely asking why Hong Kong is not in the frame. Two years ago, that question would have been easily answered. First, TPP was seen as a marginal and perhaps utopian exercise. Second, Hong Kong was firmly committed to getting the multilateral Doha Round done. But now, the scene has changed: the TPP is no longer utopian – and might well be helped along by another firmly liberal participant; and of course the Doha Development Round (the DDA) is dead. Or perhaps more exactly, it has been abandoned on life support with no realistic prospect of completion this side of 2014. Of course, in polite international trade circles no-one will openly admit the Doha Round is dead – not least because if they did, the result could be serious backsliding into protectionism, and – still worse – serious undermining of the WTO, in particular in its invaluable dispute settlement roles.

So a discrete scramble is under way to “keep the bicycle moving forward” – to get new initiatives in place that will maintain momentum for trade liberalization, and keep recession-induced protectionist backsliding at bay. That is why KORUS and TPP have become so important – and why there are serious discussions on using TPP as a building block towards the once-utopian dream of FTAAP – a Free Trade Area of the Asia Pacific.

If all the 21 APEC member economies signed up to an FTAAP, in particular one modeled on the liberalizing spirit of the TPP, which tackles a lot of “behind the border”

protection, like standards, non-level playing field regulation and procurement, then it would pull a significant share of the global economy (about 57% of global GDP to be exact) in a liberalizing direction however moribund the Doha Round might be. Even more important, it would provide a foundation for steady growth in Asia while the US economy flounders, and Europe's economies are in turmoil.

Of course, the "dog that is not barking" in this story of exotic acronyms is China. So far, it has stayed quiet on FTAAP, and has stayed aloof from the TPP, instead spending its time of specifically Asian initiatives like the ASEAN-China FTA. Perhaps at this point, this is judicious. Many would argue that the most helpful thing China can possibly do for the world economy is to continue opening up, focus on raising living standards inside China, and to build its own domestic consumer economy. My guess is that even if Obama signs a TPP with much fanfare in Hawaii in November next year, and even if Korea joins, China will for the time being stay on the sidelines. With new Chinese leaders in 2012, the present leadership has to leave something for them to do!