

TRADE&PROSPERITY



Trade and Prosperity is a fortnightly briefing on trade policy developments affecting Australia and Australian business. Visit tradeandprosperity.org for more info.

KEY POINTS

- **Alan Oxley: Trudeau got captured by the anti-trade brigade**
- **Canada stall on trade pact: what happened to TPP**
- **Making sense of APEC and US trade leadership**
- **Finding significance in the Peru-Australia FTA**
- **Debunking myths on trade and manufacturing**

Alan Oxley: Trudeau got captured by the anti-trade brigade

Canada has sown confusion over the fate of the Trans-Pacific Partnership (TPP) free trade agreement. And it appears to be the work of Canada's Prime Minister, Justin Trudeau.

Ten trade ministers (without the United States) gathered on the sidelines of the APEC conference in Ho Chi Minh city. There was consensus among them to implement the TPP agreement without the US. Care was taken to provide space for the US in the event in future it elected to join the agreement. Trade ministers worked through the outstanding issues for a day, completing their work for their heads of governments to meet to announce support for the agreement the following day.

The Canadian Trade Minister was fully engaged, but at the last minute Prime Minister Trudeau called on the Japanese Prime Minister, reportedly proposing a different strategy. Whatever it was, Japanese Prime Minister Shinzo Abe refused to support it.

When the heads of government then convened to sign off on the agreement, Trudeau did not show. After a day of confusion, a fresh consensus was struck which included the need to address another four issues before the agreement could be signed off.

Canadian 'carve-outs'

Reports are that Canada sought some additional changes. That included a more forthcoming position in labour and environment issues and a "carve out" for Canada on cultural issues. As well, Canada reportedly wanted adjustment to Malaysia's position on proposed rules on state-owned enterprises and a more forthcoming position by Vietnam on labour policy.

At this stage outsiders can only guess at what is at play here. The Canadian Trade Minister would not have participated in negotiations with other trade ministers without a brief. Apparently Trudeau changed his mind. What was the cause?

All the issues on which he sought different outcomes reflect the standard opposition to free trade by activists. Environmental activists oppose free trade, unionists want

ITS Global
contact@itsglobal.net
 +61 3 9620 3400

Visit
tradeandprosperity.org
 and itsglobal.net for
 more policy insights

TRADE&PROSPERITY



Trade and Prosperity is a fortnightly briefing on trade policy developments affecting Australia and Australian business. Visit tradeandprosperity.org for more info.

FTAs to protect labour rights, and protection of "culture" is an activist catch-all to tack all manner of other issues onto free trade agreements.

Trudeau's stance evidently irritated the other TPP aspirants. Their anger was reported as palpable.

Messages from Trump?

Did Trudeau get a message from the Trump camp that if he joined up in the revised TPP, this may bode ill for the negotiations under way on the North American Free Trade Agreement (NAFTA – Canada, Mexico and the US)?

Trump's preference was to close off the NAFTA agreement. His preferred trade policy goal is to have economies like Mexico with a surplus of trade with the US to enter bilateral agreements to reduce their trade surpluses with the US.

Trump made clear at the APEC Summit that he did not endorse free trade. He is actively espousing managed trade – to generate surpluses for the US. The administration is now also actively obstructing key functions in the WTO. He is holding up appointments to the WTO Dispute Settlement Panel which will delay resolution of trade disputes.

Ordinarily, Congress would challenge these policies – it has legal authority to do so. But the Republican caucus recently announced it would not make challenges to Trump's policies on trade a priority. Trump has recently indicated he wants to reform US tax and reduce company tax. That will be a higher priority for big business in the US.

Lower taxes for freer trade?

This will also have major implications for Canadian business. It is one of the biggest foreign investors in the US. It may be that their interests raise bigger policy issues for Trudeau than participating in a revised TPP.

Donald Trump is now revealing his full protectionist mentality. It is hogwash for the administration to declare – as his Special Trade Representative Robert Lighthizer has at the just-concluded APEC Summit – that a new global approach to trade policy is emerging. Trump's protectionist inclinations are now fully revealed.

If Canadian business decides it is better off riding the Trump wave of lower taxes – on which Canada would have no choice but to follow suit – the interest in revising the NAFTA agreement may wane.

Should Japan and Australia continue to pursue a further cut-down (minus Canada) version of the TPP? Perhaps it is too early to contemplate this.

But at a minimum Australia should continue to work with Japan to advance the case for trade liberalisation among APEC economies. Abe's new mandate to lead Japan means not only creation of a pro-active military force to deal with the strategies of

ITS Global
contact@itsglobal.net
 +61 3 9620 3400

Visit
tradeandprosperity.org
 and itsglobal.net for
 more policy insights

Trade and Prosperity is a fortnightly briefing on trade policy developments affecting Australia and Australian business. Visit tradeandprosperity.org for more info.

China and North Korea, but also a much less defensive approach to trade policy and trade liberalisation.

This article originally appeared in the Australian Financial Review.

Canada stalls on trade pact: what happened to TPP

Canada's last minute request for changes to the Trans-Pacific Partnership (TPP) caught other members and trade observers off-guard. While Canada's reasons for pushing the changes were inherently political (see above), the upshot is that much of the agreement is intact. Here are the changes and key demands in a nutshell:

- The name has been changed to "Comprehensive and Progressive Agreement for Trans-Pacific Partnership";
- There are four areas where there is still disagreement between the parties and "consensus must be achieved before signing" -- state-owned enterprises, investment, dispute settlement and culture;
- Canada wants to be able to subsidise its French television programs; this is clearly in order to get Quebecois voters onside;
- Canada's auto sector opposes TPP and its rules-of-origin provisions;
- Vietnam has said it needs more time to meet the agreement's labour standards;
- Both Brunei and Malaysia want less restrictions on their oil and gas SOEs.

At this stage there are no planned dates for future meetings. This doesn't mean the deal is dead, but it does demonstrate that without clear leadership on trade, chaos can ensue (see below).

Making sense of APEC and US trade leadership

The US has put an emphasis on 'fair' trade in the APEC annual leaders' statement, and watered down its language on fighting protectionism.

The APEC Communique was always going to be a struggle in the Trump era.

The annual statement from the regional economic grouping often struggles to maintain relevance or break new ground at a time when many multilaterals – the G8 or G20, OECD, and the UN in particular – have devolved into meaningless talk-shops.

This year the problems have been particularly acute, and for one reason in particular: the Trump Administration. This was no surprise after the Administration's attitude towards NAFTA, the TPP and the Korea-US trade agreement.

Its approach to APEC wasn't going to be any different. The Trump Administration left its fingerprints all over the Joint Communique. Descriptions of trade needing to be 'fair' and the need to address 'unfair trade practices' are peppered throughout the document. According to news reports the US pushed for changes in language to say that WTO-inconsistent barriers need to be 'addressed' rather than 'fought'.

ITS Global
contact@itsglobal.net
 +61 3 9620 3400

Visit
tradeandprosperity.org
 and itsglobal.net for
 more policy insights

Trade and Prosperity is a fortnightly briefing on trade policy developments affecting Australia and Australian business. Visit tradeandprosperity.org for more info.

At this year's meeting the US arguably had less significance in the meeting than at any other point in the organisation's history. Its decades-long leadership in trade policy has essentially evaporated.

This has not just taken place in APEC. Current WTO deputy director and former US trade official Alan Wolff has pointed that the US has effectively vacated its leadership role at the WTO.

"The new reality is that America is sitting this one out," said Wolff. "Nobody, nobody has clearly adjusted to the fact that the guarantor of the international system is no longer performing that [leadership] role."

Finding significance in the Peru-Australia FTA

At first blush, the Peru-Australia FTA (PAFTA) doesn't look significant. Exports from Australia to Peru totalled around USD46 million last year representing around 0.029% of total exports. Our biggest exports are obscure, such as antiknock, a fuel additive, and railway cars. Peru's exports to Australia are around five times larger, mostly copper, lead and zinc.

It's a much smaller trading partner than many other South American countries, including Chile, Argentina and Brazil.

So, what's the significance?

Peru's economy is sizeable (ranked 39th by GDP), its population modest (31 million) and it is one of the fastest growing economies in the region.

According to DFAT statistics, in 2016 total two-way trade in goods and services between Australia and Peru was worth A\$590 million, up 51.2% year-on-year. The number of Australian companies operating in Peru has grown from ten in 2003 to currently over ninety. The Australian and Peruvian mining sectors, in particular, are already closely integrated.

As a result of the PAFTA, a number of key of agricultural commodities will gain duty-free entry to Peru including sugar, beef, rice, dairy, almonds, sheep meat and wine. There will be immediate duty free access for sheepmeat, most wine and most horticulture products, kangaroo meat and wheat.

Last year, Peru imported \$6 billion of agricultural goods.

According to DFAT, Australia's sugar market access is more than any other exporting country has achieved in the past 20 years. Around 30,000 tonnes can be exported initially, doubling to 60,000 tonnes over five years.

Above all, Peru is a willing partner in an open trade and investment arrangement with Australia. Since the 1990s, Peru has undertaken serious economic reforms, including significant privatizations. Peru has FTAs with the US, China, Japan and the EU, and a number of other smaller bilaterals.

ITS Global
contact@itsglobal.net
 +61 3 9620 3400

Visit
tradeandprosperity.org
 and itsglobal.net for
 more policy insights

TRADE&PROSPERITY

Trade and Prosperity is a fortnightly briefing on trade policy developments affecting Australia and Australian business. Visit tradeandprosperity.org for more info.

This openness to trade and investment has put the country in good stead; the election of the current centre-right administration after 15 years of leftist governments indicates a return to a pro-growth position.

Peru's policies also represent an attitude to doing business that is more open than many of our major trading partners. Sure, the agreement covers a small amount of trade, but what Australia has in Peru is a like-minded economy.

Debunking myths on trade and manufacturing

A new paper from the US-based Peterson Institute debunks the myth that international trade has been the root cause of the decline in US manufacturing jobs.

The idea that trade – particularly China's accession to the WTO – was the major cause of job losses in the manufacturing sector became particularly popular in the lead-up to the 2016 Presidential election.

The new paper, however, argues that productivity growth in manufacturing and relatively flat consumer demand has been the major contributor to the decline in employment. At the heart of the argument is a simple trade off: higher manufacturing productivity means fewer manufacturing jobs. This has been observed particularly in the auto sector, with increased automation lowering demand for labour on the factory floor.

This has been common across all developed countries, with very few exceptions. According to Congressional research data, productivity increases in the US and Germany – and consequent employment losses – have been roughly the same. Smaller productivity gains and larger job losses have taken place in the UK and France. Why the bigger losses? Less productive firms have lost their place in the market.

Despite newer and better data indicating that trade is not the manufacturing bogeyman, senior US officials are still utterly fixated on manufacturing jobs.

USTR Robert Lighthizer said in an interview last week that "My job is trying to create manufacturing jobs in America, and to put upward pressure on people's wages." For this to come from a trade official is remarkable; it simply underlines the US' new diminished role in world trade.

ITS Global
contact@itsglobal.net
+61 3 9620 3400

Visit
tradeandprosperity.org
and itsglobal.net for
more policy insights

TRADE&PROSPERITY



Trade and Prosperity is a fortnightly briefing on trade policy developments affecting Australia and Australian business. Visit tradeandprosperity.org for more info.

ABOUT ITS GLOBAL

ITS Global specialises in public policy in the Asia Pacific region. Its expertise include: trade, economics and investment; environment and sustainability; aid and development; and corporate social responsibility and risk. It enables clients to assess implications of policy; develop and implement strategies to manage policy impacts; and to improve policy formulation.

ITS Global has clients in manufacturing, services, agriculture, forestry and mining sectors.

ITS Global is recognised for the quality delivery of its services by clients in government and business. Clients also include major international agencies such as include the Asian Development Bank (ADB), AusAID, the OECD, DFAT the ASEAN Secretariat, the APEC Secretariat.

ITS Global
contact@itsglobal.net
+61 3 9620 3400

Visit
tradeandprosperity.org
and itsglobal.net for
more policy insights