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Global trade loses referee as US and China lock horns

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The 11 remaining members of the Trans-Pacific Partnership are betting that the US will come to its senses, either under Donald Trump or after he has gone. The revised agreement has suspended about 20 provisions that the US had insisted on, such as extending copyright provisions and intellectual property protection for biological molecules, but left them in the documentation so that they can be implemented when the US returns.

The TPP was envisaged as the foundation for a vast trade agreement that would include all the members of APEC, covering almost half the world's commerce. Although this would eventually include China, the standards on issues like intellectual property and investment were set so high that it was expected to take decades before China qualified.

In the meantime, the TPP would act as a US-led counterbalance to the rise of China.

The US has been the rule-maker for global commerce since the dust settled after World War II. The US and Britain saw that trade wars had both intensified the 1930s Depression and created the conditions for the rise of totalitarian regimes in Europe and Japan.

The General Agreement on Tariffs and Trade, signed in 1947, committed nations to reducing protection and was a critical part of the US-led postwar institution building, which also included the UN and the International Monetary Fund.

Preserving freedom of trade furthered the interests of US enterprise with its unparalleled global reach and also engaged the elites in the developing world in resisting the spread of communism. There was consistency between foreign policy and trade policy. The rival strategic power — the Soviet Union — was excluded and had negligible impact on the commercial world faced by free enterprise.

Following the fall of the Soviet Union in the early 1990s, the US-led world order reigned supreme. Asia was its greatest success story, becoming the most dynamic force in the global economy by embracing trade.

Much of Asia's growth was driven by US enterprise making use of efficient supply chains and low-cost labour to supply both the US market and the rest of the world.

However, Trump and his trade advisers believe the rules-based framework for global commerce, which the US largely devised, has been exploited by China to support its rise as a global economic and strategic power.

Economists can demonstrate that it is the volume of two-way trade, not the balance, that matters. Economies are ultimately about delivering the needs of consumers — any modelling of trade agreements calculates how much better off they will leave consumers, not their boost to exporters.

But for the Trump administration, the \$US350 billion (\$433bn) trade deficit is a manifestation of the loss of US power and influence to China. Trump's national security statement in December declared that China was seeking to "displace the United States in the Indo-Pacific region" and was challenging "American power, influence and interests, attempting to erode American security and prosperity".

The policy of former administrations had assumed China's rise and integration into the global economic order would result in its liberalisation. "Contrary to our hopes, China expanded its power at the expense of the sovereignty of others ... We will raise our competitive game to meet that challenge, to protect American interests, and to advance our values," he said.

The US now talks of fair, not free, trade. The tariffs imposed last week on imports of Chinese washing machines and solar panels are indicative of a change in not just trade policy but foreign policy. It sees a rivalrous world in which the US can prevail through the exercise of power, rather than through adherence to rules.

Support for free trade has been the exception rather than the rule through the history of the US. The losers from free trade are easily identified and organised whereas the winners — consumers — are the anonymous mass.

In the highly regionalised US economy, local concentrations of particular industries can exercise disproportionate political influence.

In the 2016 election campaign, both Trump and the two Democrat contenders, Hillary Clinton and the leftist Bernie Sanders, vowed to withdraw from the Trans-Pacific Partnership, so it is a big leap of faith by its 11 remaining members to imagine a bipartisan US return to the fold.

US multinationals benefit from globalisation and have been a moderating force. It is only because of their pressure that the Trump administration is still renegotiating NAFTA rather than following its instinct to pull out.

The US has been more cautious in imposing economic sanctions on China than was imagined when Trump came to office, breathing fire and brimstone. But there is no mistaking the intent of the rhetoric and the action over the past month.

The decision to press ahead with the TPP without the US shows there is still momentum behind globalisation.

Political leaders in Australia, New Zealand, across Asia and, on the other side of the Pacific, in Latin America still believe in the benefits of free trade. But with the world's two biggest economies at loggerheads in a strategic competition, there is no longer a guarantor for the rules-based order of global trade that has underwritten the past 70 years of peace and prosperity.