

## Turn the trade around

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THIS week 100 officials from eight countries including the US and Australia met in Melbourne to start negotiating a new trans-Pacific trade agreement. The timing and the location of this meeting appropriately sets the scene for US President Barack Obama's visit to Australia in a fortnight.

For more than just another trade agreement is in prospect. This new "Trans-Pacific Partnership" will become a key tool for active engagement by the US in shaping the future of the Asia-Pacific region.

It is a matter of record that the Asian region has grown faster than any other for the past 50 years. Yet there are still large pockets of poverty. More than 200 million Chinese, 40 million Indonesians and 20 million Filipinos still live on less than \$US1 a day.

While the region has benefited greatly from the boost to growth created by the huge increase in demand from China (this cushioned the impact when the American and European markets collapsed in the global financial crisis), all governments know that the only sure-fire means to sustain growth is to get their economies working properly.

The 21 members of the Asia Pacific Economic Co-operation forum have all made a commitment to continue to open their economies to generate the growth necessary to eradicate poverty. Making a commitment is one thing, complying is another. Import barriers remain high in some countries and, more importantly, restrictions limit foreign investment and expansion of the services sector.

This is particularly important for continuing growth in the APEC region. In industrialised economies like Australia and the US, more than 80 per cent of economic growth is generated by the services sector. Lower-income economies depend less on services. They generate about 40 per cent of Indonesia's economy. As incomes rise, the services sector becomes more important. Yet even the more advanced Asian economies have been reluctant to open their transport, telecommunications and finance industries to foreign investors.

Without competition and investment in these sectors, a key driver of competitiveness in every economy, growth will tail off. Foreign investors are deterred where finance is not readily available and telecommunications and transport costs are high.

As the world's largest and most open economy, the US has driven the opening of the global economy since World War II. It pioneered the idea of liberalising barriers to services as well as goods during negotiations in the GATT, the predecessor to the World Trade Organisation 20 years ago. Free trade agreements now give as much emphasis to services, investment and competition policy as to reducing import tariffs on goods.

Just last week, Obama described that Trans-Pacific Partnership as setting a new standard for 21st century trade agreements. The partnership aims to gather together the leading liberalisers in APEC. As well as the US and Australia, they include Brunei, Chile, New Zealand, Peru, Singapore and Vietnam.

APEC members have already laid down the idea of forging a free trade agreement among all 21 members. But since that includes China, Japan and Russia, it will not be quickly achieved. These economies still restrict trade to a significant degree and trade tensions among them are constant. One aim of the Trans-Pacific Partnership is to set a standard for a bigger agreement that the rest of APEC can follow.

And this is why engagement and leadership by the US is so important. It has the most competitive economy in the world; its companies set the standard for global business, and it negotiates high-standard trade agreements. It encourages low tariffs, removal of barriers to services and

investment, and development of competition policies to improve domestic markets. No other major economy, not the European Union, not China, not Japan, sets similar standards.

The disposition of the Obama administration to take this path is very important. When campaigning for the presidency, Obama made much of greater engagement by the US in the Asian region. This will be his second visit.

While the Bush administration set good standards for trade liberalisation (and that included free trade agreements with Singapore and Australia), it unfortunately provided little leadership to advance an integrated economy in the Asia-Pacific region, other than carefully managing the bilateral economic relationship with China. Only towards the end of the second Bush administration did the idea of the Trans-Pacific Partnership - which had been promoted by Brunei, Chile, Singapore and New Zealand - get any attention in Washington.

Obama will not have an easy time on trade issues given the strong anti-trade sentiments that exist in the US Congress, particularly among his Democratic colleagues.

Congress has an aversion to the idea that the US should take the initiative of bringing the long overdue WTO negotiations to conclusion. It did not, however, dissuade Obama from making this Trans-Pacific Partnership a key strategy.

Australia's Trade Minister, Simon Crean, and his officials deserve credit here as well. They actively promoted the benefits of following this path with the new Obama administration.

For them, securing US economic engagement in the region inserts the missing link into the chain required to realise the region's full economic potential.

Access to the US market, the availability of US investment and technology, and its commitment to open economies, when married to the economic dynamism of China and the growing markets in the rest of the region, create the formula required to get the best of this heady mix.

Australia was one of the architects of APEC and the Rudd government, like its predecessors, continues to work to promote a regional economy that will produce prosperity and end poverty.

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