

## **Address by Dr Craig Emerson, Director, Australian APEC Study Centre, RMIT University, to Australia-China Economic Trade & Investment Expo (ACETIE) 2023 Main Forum, Melbourne, 15 September 2023**

Just over a week ago, I was in Beijing co-chairing the resumed Australia-China High Level Dialogue; and meeting foreign minister, Wang Yi, for more than an hour.

My overall impression from the visit was that the Chinese authorities were reaching out to Australia, welcoming the warming in relations, and looking to improve them further.

Australia's distinguished former foreign minister, Professor Gareth Evans, is speaking today on the geostrategic situation. So I won't seek to traverse that terrain in my remarks; Gareth is far better qualified than I am to do so.

Rather, I will concentrate on the economic relationship between China and Australia. It, too, is improving – with China removing trade restrictions on Australian timber, coal and barley. With two representatives of the wine industry in last week's delegation, we made the case for removing the tariffs on wine as well.

Chinese tourism to Australia has now resumed strongly and our universities are hosting many thousands of Chinese students again. This was bolstered by a Chinese government edict requiring China's undergraduates to return to Australia to complete their studies, rather than completing them online.

Beyond immediate concerns, we looked over the horizon in our economic discussions in Beijing.

The global rules-based trading system is in its worst shape since its inception as the General Agreement on Tariffs and Trade in 1948. For the most part, the Trump tariffs, which clearly were illegal under the rules of the World Trade Organization (WTO), remain in place. While they apply mainly to Chinese goods, other countries have not been spared, including US allies.

Many provisions in the US Inflation Reduction Act are in violation of the WTO rules on subsidies. But the US continues to veto appointments to the WTO's Appellate Body, effectively preventing these rules from being enforced by neutering the dispute-settlement system.

Neither side of politics in the US – Democrat or Republican – is showing any interest in trade liberalisation, having dumped the open-trade policies the US had championed throughout the post-war era until the presidential election campaign of 2016. The Democrats, having taken a leadership role in negotiating the Trans-Pacific Partnership (TPP) as their pivot into Asia, dropped it like a stone when Donald Trump announced he would withdraw the US from it if elected President.

Now China is seeking entry into the modified TPP, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – or the TPP minus the US.

Meanwhile, the US, which is not a member of the CPTPP or of the Regional Comprehensive Economic Partnership (RCEP) – an ASEAN initiative that includes Australia, China, Japan, Korea and New Zealand – is instead championing its new idea, the Indo-Pacific Economic Framework (IPEF).

IPEF comprises the US, India, Australia, Brunei, Fiji, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand and Vietnam, but excludes China.

Get the picture? The US and China don't want to be in the same regional trade grouping, each favouring one that excludes the other.

Instead of free trade, we have a dog's breakfast in a spaghetti bowl of competing and partially overlapping trade agreements.

In the last couple of years, I've been hearing more of the formation of rival trading blocs – whether it's one or more of these regional agreements, or an expanded BRICS grouping, or the cooperation of Belt and Road countries.

These ideas extend into decoupling – where groupings trade and conduct commerce with each other on one digital platform to the exclusion of rivals trading on another digital platform.

Have you ever heard of anything so absurd?

The WTO confirmed in this week's Annual World Trade Report that the US-China trade war has triggered a decoupling between the two rivals that is now spreading to countries aligned with the two superpowers.

The report found that while US-China trade is, in fact, increasing, trade with other countries is growing faster. Defining countries as part of a geopolitical bloc on the basis of how they voted at the United Nations, the WTO report found that trade flows within blocs are growing faster than those between blocs.

But, in my view, try as they might for geostrategic reasons, the sponsoring countries of these rival trading blocs will struggle to overcome the forces unleashed by the laws of comparative advantage.

Just imagine governments prohibiting their citizens from importing goods and services from rival countries and obliging them to pay more to friendly trading partners for a geostrategic reason that may or may not be relevant to their citizens.

Re-erecting tariff barriers and imposing embargoes just doesn't seem politically feasible in circumstances other than open military conflict, or the imminent threat of it.

Equipped with the internet of everything, consumers would be able to see instantaneously the goods, services and – most importantly – the prices they are being denied by their governments.

While geostrategic tensions might tempt governments to re-erect trade barriers against rivals, the digital age will make these efforts impractical.

Which takes me to the hope of the free-trade side – the Asia-Pacific Economic Cooperation forum, or APEC.

I am director of the Australian APEC Study Centre at RMIT University.

I took on that role because I am optimistic about APEC's future.

APEC is a regional grouping of Asia-Pacific economies. It includes the geostrategic protagonists, China and the US. It also includes Russia.

APEC's Bogor Declaration of 1994 set a goal of free and open trade between all participating economies by 2020. This goal has been substantially achieved, with tariffs dropping from an average of 17 per cent in 1989 to just over 5 per cent today and, on 54 environmental goods, to no more than 5 per cent.

On several occasions, leaders have gone further by declaring their support for a Free Trade Area of the Asia Pacific (FTAAP), but without specifying – or perhaps even knowing – what this might involve.

I am chairing the taskforce for a project of the Pacific Economic Cooperation Council (PECC) that is seeking to provide more substance to the notion of an FTAAP.

PECC is a regional forum for thought leadership and policy cooperation to promote integration, economic growth and development. It brings together the minds of academia, government officials and business leaders from across APEC economies to advance thinking on regional policy issues.

The taskforce I am chairing comprises PECC representatives from Australia, Canada, Chile, New Zealand and Thailand. The project is being led by PECC in Australia, through the APEC Study Centre, with the aim of giving greater substance to the notion of the FTAAP.

My view is that the FTAAP should be designed to be voluntary, non-binding and non-discriminatory.

### **Voluntary**

A voluntary FTAAP is one in which APEC economies choose whether or not to participate. No penalty would apply to an economy that decided not to participate.

## **Non-binding**

An APEC economy that signed up to FTAAP but was unable or unwilling to meet its ambition would not be penalised.

## **Non-discriminatory**

Tariff reductions and other liberalising measures would be available to all countries, not just to APEC economies.

Although this seems fanciful, it is not; the agreement to limit tariffs on 54 environmental goods that I helped broker at the 2012 APEC meeting in Vladivostok possessed each of these three features.

All APEC economies – bar one – have implemented their commitments under the APEC Environmental Goods Agreement.

The environmental goods list compiled in 2012 does not include a range of goods that have since become important in the global and regional decarbonisation process.

At the APEC Study Centre, we have explored the potential benefits of updating the list to include renewable energy sources such as hydrogen and ammonia; goods that are used for energy storage, such as lithium cells and batteries; and goods used in transport, such as hydrogen-fuel-cell vehicles and parts.

But we have been left in no doubt that not all economies are interested in expanding the list, which includes the US despite having been the champion of the original list, initially proposing 330 goods that we had to trim down to 54 goods to gain the agreement of other APEC economies.

My proposal, in these difficult circumstances, is for APEC economies to agree to pursue specific measures to liberalise trade and investment within our region. We could begin by prioritising measures needed to help economies meet their emission-reduction commitments under the Paris Agreement.

Such measures could include expanding the Environmental Goods List, establishing a regional market for carbon offsets and developing disciplines to address non-tariff trade-restricting measures along supply chains.

As with the existing Environmental Goods Agreement, these initiatives would be voluntary, non-binding and non-discriminatory.

This proposal is consistent with the agreement APEC leaders reached in 2001 to create so-called Pathfinder Initiatives. A sub-grouping of APEC members would start one or more of these initiatives and, once a pathway forward was found, would leave the initiative open for others to join when they were able to match the ambition of the sub-grouping.

In effect, these would be open plurilateral agreements, which are provided for within WTO rules.

My proposal for moving towards an FTAAP through a series of Pathfinder Initiatives is an inclusive approach that is consistent with free and open trade and investment.

I commend it to you here today, and to APEC decision makers for their consideration.