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## **TRADE POLICY AND TRADE POLITICS: CHALLENGES OF ECONOMIC NATIONALISM**

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## Abstract

In 1998 world leaders came together to celebrate the 50<sup>th</sup> anniversary of the multilateral trading system and to support the World Trade Organization. Now, trade is being depicted by some political leaders as the culprit for job losses, social dislocation and much else. This paper argues that it would be unwise to assume that there is a long-term Asian immunity from the resentments that have surfaced in Europe and the US. Furthermore the climate of uncertainty surrounding trade policy is not a good basis for planning or investment in either the public or the private sector. It sets out some possible responses to the new trade nationalism. These include the promotion of a positive trade narrative, especially by business, and accompanying this with action by governments to keep trade open. Malaysia's APEC chair in 2020 will offer an important opportunity for leadership in this sense. It is argued that both business and governments also need to renew their support for the multilateral trading system and work to reinforce it. ASEAN countries are well placed to do so. Its leaders, government and business together, are well placed to make the positive case for maintaining a stable and open trading system-for trade policy rather than trade politics- and they have the strength and credibility to do so effectively.

**Keywords:** Trade; Anti-globalization; APEC; ASEAN; Trade Facilitation.

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Evan Rogerson retired from the WTO Secretariat at the end of March 2017, having held senior positions there for more than twenty years. He joined the New Zealand Ministry of Foreign Affairs in 1976 after graduating in history from Auckland University and initially worked in defence cooperation, then in economic relations. Secondment at the Treasury preceded postings in Brussels and London. His work in those postings focused on trade policy, particularly New Zealand's relations with the EU and access to the European market. After a period as External Relations Manager for the NZ Dairy Board in London, he joined the GATT Secretariat in 1986, working in the Agriculture Division on the Uruguay Round negotiations before moving to the Director-General's Office in 1993. His role here ranged from speechwriting to policy advice. As Director of the DG's Office and Chief of Staff to WTO Director-General Renato Ruggiero from 1995 to 1999 he was closely involved with the WTO's first Ministerial Conference in Singapore in 1996. Among many other roles during this time he acted as the WTO's G-8 sherpa and co-ordinated the GATT/WTO's 50th anniversary ministerial in 1998 which brought together world leaders including Presidents Clinton, Castro and Mandela. He worked closely with Director-General Mike Moore to prepare the launch of the new Round at Doha in 2001. From 2002 he headed the Council and TNC Division, servicing the WTO's top committees and Ministerial Conferences. In 2012 he came back to the Agriculture and Commodities Division as Director. In this role he was also Secretary of the negotiating group on Agriculture. In 2015 he led the team that prepared the agreement to abolish agricultural export subsidies reached by Ministers at Nairobi that year.

## **Introduction**

In more than 30 years working in trade policy I have never seen it in the headlines as often as it is now. Unfortunately, this is mostly for the wrong reasons. In 1998 world leaders ranging across the spectrum from Fidel Castro and Nelson Mandela to Bill Clinton and Tony Blair came together to celebrate the 50<sup>th</sup> anniversary of the multilateral trading system and to support the WTO. Now, trade is being depicted by some political leaders as the culprit for job losses, social dislocation and much else. Particularly in the northern hemisphere, trade agreements are now being ranked with immigration in the populist demonology.

There has of course often been opposition to trade agreements from a range of civil society groups, but at government level trade policy in these countries has for decades been made in a broadly consensual political environment. Now, that environment is being disrupted by trade politics. In the UK, the US, France and other European countries, though with varying outcomes, we have seen the electoral power of the economic nationalist narrative as part of a generalised backlash against insecurity and lack of opportunity.

At a simple level, one could argue that this is mainly a problem for a few countries on either side of the Atlantic. The term industrialised countries, like so much else in the international lexicon, needs updating; their current situation is more to do with a failure to adjust to de-industrialisation. More precisely, with long-term policy failures in key sectors-education, social investment, regional policy, infrastructure-which have left sectors of the population in the former industrial heartlands marginalised and resentful. Trade, like immigration, has become a lightning rod for this resentment and populist politicians are only too willing to exploit it for electoral gain.

### **Economic Nationalism: A Concern for Asia Too**

We could feel good that there is little sign of a similar anti-globalisation backlash in Southeast Asia or, with limited exceptions in Australia and New Zealand, in the wider region. This can be partly ascribed to better economic growth, productivity and job creation, a relative lack of “rustbelt” industries, investment in education and willingness to embrace new technologies. The benefits of global value chains are still more apparent than any downside, and the memory of past poverty still fresh enough to counteract nostalgic nationalism.

Any comfort in this observation would be largely illusory, though. For one thing, as economies mature they begin to confront some of the same structural problems linked to

higher costs and relatively slower growth combined with rising expectations. Different political systems will reflect shifts in public attitudes in differing ways, but it would be unwise to assume that there is a long-term Asian immunity from the resentments that have surfaced in Europe and the US. And, of course, the region has its own trade tensions.

Secondly, the global integration that has fuelled growth has increased our interdependence. Even if the trade politics of the US are very different from those of Malaysia, the actions the US takes can have a major effect on Malaysia and the wider region. This is already apparent in the Trump Administration's decision to pull out of TPP, in which this country and its regional partners have invested heavily. For example, missing out on its promise of reducing and simplifying regulatory barriers and enabling expansion in growth sectors like e-commerce would be a serious loss.

Then there is the uncertainty factor. The eventual outcome of other actions the US has initiated, such as the reviews of trade agreements including the WTO, the steel investigation and the possible renegotiation of NAFTA, cannot be predicted with any confidence. Even if it seems clear that the overall trend is to a more narrowly nationalistic view of trade, emphasizing bilateral reciprocity and the reduction of trade deficits, we do not know how this will play out in action.

The tone of US-China trade relations has recently been more muted, for example-but it would be optimistic to assume that this will necessarily persist. And you know better than I do the risks of collateral damage for ASEAN economies if trade frictions between the two were to escalate. Looking to Europe, while the most disruptive outcome of the French presidential election has been avoided, the anti-globalisation forces remain strong in a number of countries and the potential effects of Brexit beyond the economies directly concerned add another layer of uncertainty.

Even if -if- we avoid the most disastrous effects of these extremely complex sets of issues, the global climate of unpredictability that they are creating is not a good basis for doing business, for planning or investment in either the public or the private sector. The new trade nationalism calls for an effective and rapid response.

## **Responding to the Threat**

I'd like to suggest some possible elements of a response.

One is to work to put trade policy back in its proper perspective. In other words, reclaim it from partisan politics. Trade agreements are not the only, or even the main, reason for job losses and low wages in traditional manufacturing areas. We have to face the fact that job losses in some sectors can indeed be attributed to competition from imports. It is equally true that many jobs depend on trade. In any case, changing technology is a much more important factor. My former colleagues at the WTO have done some excellent work, together with other economists, in showing that technology change accounts for around 80 % of developed-country job losses.

Similarly trade agreements are not the reason that laid-off workers in these areas have few options; that has far more to do with domestic policies which have too often neglected the human costs of changing production patterns. Governments that have failed to assist people to adjust find it convenient to blame external factors, but the jobs will not come back by putting up barriers and limiting opportunity. On the contrary, it will make more jobs disappear.

The problem is to get these points across to the wider public in a way that has an impact. Economic studies mostly don't, but we still very much need them because they provide the diagnostic basis for a meaningful policy response and the intellectual basis for effective argument. It's not a case of dumbing down the facts, just of presenting them in a striking and accessible way.

The failure of the pro-trade case to resonate with voters has often been put down to the observation that benefits from trade tend to be diffuse, while costs are often local. The media and political impact of one business closing can be much greater than that of a dozen opening, because it appears more immediate at a human level. In my view we shouldn't take this as a given. There is no reason why the success stories of trade agreements in terms of job creation and upskilling cannot be communicated with just as much immediacy and empathy as the negative story. Of course it takes someone to invest money and commitment in order to do this. If governments are unwilling to, why doesn't business do it?

Arguments in favour of open trade need to be backed up by action. Despite the worrying developments there are also some hopeful signs, especially in this region.

## **Regional Responses and the Multilateral System**

The effort being made to continue TPP with fewer participants is one such. The ASEAN Economic Community, inaugurated under Malaysia's ASEAN chairmanship, is another positive example. So are the RCEP negotiations and the APEC trade agenda. In their differing ways, these initiatives all contribute to pushing back trade barriers in favour of co-operation and integration. They make a positive statement about the will of governments in the region to pursue open trade policies. Given the economic weight of the region such a commitment carries global weight. Malaysia's APEC chairmanship in 2020 will offer another opportunity to demonstrate it.

It is positive that the international economic institutions are coming together more effectively in defence of shared multilateral values. In an age of joined-up economies there is an obvious need for joined-up thinking on global co-operation. The recent collective statement by the heads of the IMF, World Bank, WTO, OECD and ILO, together with Chancellor Merkel, was an important signal of unity. Less promising was the G20's failure to agree on language rejecting protectionism.

In fact, the very existence of the WTO is already a powerful statement against protectionism. The aftermath of the 2008 financial crisis proved the worth of its rules and commitments in countering the sort of protectionist stampede that turned the events of 1929 into the Great Depression. It would be hard to believe that this lesson had been forgotten in less than ten years. Plurilateral and bilateral deals may have a faster and deeper liberalising impact than the tortuous process of reaching consensus among 164 WTO Members-although we have seen that they are not always plain sailing either-but they cannot substitute for the only global system of agreed trade rules and the dispute settlement system that backs them up. The Ministerial Conference of the WTO in Buenos Aires in December this year will be an important opportunity to reaffirm the value of the system.

## **Priorities for Action**

The urgent need is for all those who are concerned to keep trade open not only to stick up for the multilateral system but also to work to reinforce it.

Governments should implement commitments fully and promptly. This is particularly relevant to the findings of Dispute Settlement cases, as the credibility of the system rests on it. But it is also true of a range of other commitments under existing agreements, from the

phasing out of export subsidies and remaining import quotas to the transparency obligations that are essential to the functioning of the system. One immediate need is to ensure that domestic procedures are in place to implement the Trade Facilitation Agreement, which has just entered into force. Governments also need to ensure that traders are fully aware of the advantages the Agreement offers them.

The days of big Rounds of multilateral trade negotiations are over, at least for the foreseeable future. But as the recent successes with Trade Facilitation and Agricultural Export Subsidies have shown, it is not impossible to negotiate successfully in the WTO. Governments would do well to remember this and bring their attention and their resources back to the multilateral table. There is important unfinished business in agriculture and fishery subsidies, issues with a direct and significant effect on livelihoods and sustainability. Negotiations on services trade should be brought back to the WTO, and there is an urgent need to establish an appropriate multilateral framework for electronic commerce that will facilitate its expansion free from conflicting or arbitrary barriers.

Similarly, the private sector needs to renew its active support for the multilateral system. This has waned in recent years with frustration at the slow rate of progress in negotiations. The problem is that if business turns its attention away this just makes things worse; governments need to know that the private sector is taking an active interest. There are signs that this interest is reviving. After all, the Trade Facilitation deal is evidence that the WTO can indeed deliver results that are of real direct relevance to business. Furthermore, whatever the pace of negotiations, the business sector continues to need the security and predictability of the multilateral rules. The WTO Secretariat has been stepping up its outreach to business, but it has institutional constraints, and in any case it is the government negotiators that need especially to be reached. Business groups themselves could usefully take a lead, for example in pushing for the establishment of regular WTO consultative processes with governments and in Geneva. The consultative structures that exist in APEC and ASEAN could be a useful model.

### **Lessons from Malaysia's Region**

Smaller players can make a big difference. There is often a tendency in trade negotiations to a kind of fatalism that assumes that unless the big powers lead nothing can be achieved. I don't accept this. There are many cases of smaller countries taking a lead in developing ideas and positions that have influenced the direction of the system. If they act together their effect is

multiplied. TPP began as the P4, after all. The Cairns Group did much to define the agenda for agriculture negotiations.

This region also provides some useful pointers for the direction of the multilateral system. At a time of heightened tensions and inflammatory rhetoric about trade the co-operative, consensual basis of ASEAN provides a useful reminder of other ways to approach contentious issues. Likewise, the non-binding nature of commitments under APEC has enabled it to advance on issues where governments may not feel ready for hard law outcomes. Much of the early impetus for Trade Facilitation came from APEC. I should also point out that a lot of it also came from my friend Dato' Muhamad Noor Yacob, who as Malaysia's Ambassador chaired the working group on it in the WTO. Individuals can make a difference too.

## **Conclusion**

To sum up, the need to minimize unnecessary obstacles to the flow of trade remains vital to global growth, employment and stability. A healthy and credible multilateral trading system is essential to fulfilling that need. Yet today it is challenged as never before. In my view the response of the Asia-Pacific region is crucial. Even at slower rates, this is still the engine room of trade and economic growth. Most global value chains run through the region and it is increasingly important in electronic commerce. The innovations of the future in digital trading platforms, whether for commodities or for services, are being developed here, now. The region's dynamism owes a lot to co-operation and integration, among businesses, industry associations and governments. Its leaders, government and business together, are well placed to make the positive case for maintaining a stable and open trading system-for trade policy rather than trade politics- and they have the strength and credibility to do so effectively.



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