

Trade Policy, New Century

The WTO, FTAs and Asia Rising

SUMMARY

- Ideas about free trade started in the West and were originally exported to the rest of the world. But, today, the major challenges for trade policy come from Asia.
- Trade is still the engine of prosperity and the handmaiden of peace. The 'New Globalisers' that have been freeing trade have seen rapid economic growth, reductions in poverty and improvements in welfare.
- The authentic case for free trade should be set in the context of classical liberal political economy and, as such, Western political opinion needs to move on from considering the promotion of free trade as a top-down process driven by supranational institutions. Instead it should see free trade as an integral part of a domestic liberal political agenda.
- Supranational organisations, including the World Trade Organization (WTO), have become too unwieldy to be effective in promoting radical trade reform; they should focus on ensuring that their rules are implemented effectively rather than on seeking radical liberalisation.
- Protectionist interests are alive and well and have influence both within individual countries, such as the USA, and within supranational organisations.
- The relatively liberal Western democracies should focus their trade policy on removing remaining explicit protectionist

barriers but, perhaps more importantly, also on simplifying and making more transparent inhibitions to trade such as rules of origin and anti-dumping provisions. It is also important that a ‘culture of evaluation’ develops in the West so that implicit barriers to trade are properly scrutinised – especially within the EU.

- Slower reformers, generally lower-income countries, should focus on lowering tariff barriers and quotas – they generally lack the governance capacity to implement more complex reforms. Less developed countries need to lower their tariff barriers between themselves.
- There are over 180 Preferential Trade Agreements (PTAs) in force. PTAs are spreading like wildfire throughout Asia. In practice, many tend to be ‘trade light’ tools of foreign policy and diplomacy.
- Those Asian countries that have successfully integrated into the world economy have done so through unilateral liberalisation. China has reduced its tariffs from an average of 65 per cent twenty years ago to 10 per cent today. This process of unilateral liberalisation must continue, but the USA and the EU need to ensure that the right background for liberalisation exists by eliminating protectionist rhetoric and actions, such as so-called ‘anti-dumping’ measures.
- A classical liberal, ‘small-government’ domestic culture, which includes the promotion of unilateral free trade, will help ensure that the development of free trade is not knocked off course by vested interests. Dangerous vested interests include those promoting protectionism in the name of environmentalism, protecting strategic industries or promoting domestic security.

- The USA is an indispensable anchor for maintaining global peace. Its leadership is currently unchallenged. It has a particularly important role in engaging constructively with Asian countries to ensure that the best political climate exists for the continued development of free trade and internal liberal reform in Asia.