Editorial&Opinion

Trump must go back to TPP to get a deal with China

Trade wars
The currently mothballed Trans-Pacific Partnership offers a framework to resolve many of the issues in the US-China stand-off.

Alan Oxley

While Donald Trump has brought turmoil into international trade, it has turned out not to be as destructive as expected. If he wins a second term, will things move in a different direction? Barack Obama showed little interest in trade in his first term. But during his second, he supported the idea of the Trans-Pacific Partnership (TPP) free trade agreement.

The purpose of the Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP) was to move trade liberalisation into the new growth areas of investment, services and e-commerce where the World Trade Organisation (WTO) should have led, but could not. The majority of WTO members were not interested in trade liberalisation.

Trump declared opposition to the CPTPP agreement before he was elected. It is mothballed: conveniently, at least, where Congress can reach it if and when a president elects to join the agreement.

Trump's initial perspective on trade agreements was crude. They were only useful if they generated surpluses for the US. He blocked imports of steel to protect American jobs, and wanted manufacturing of autos and auto parts returned to the US. He pressed Korea and Japan to move in that direction. In the end they did enough to please Trump.

Trump also decided to revise rather than withdraw from the highly successful free trade agreement with Canada and Mexico (NAFTA) with some, but not too many, protectionist elements. A revision of NAFTA (now the US, Mexico, Canada free trade agreement – USMCA) is awaiting endorsement by Congress.

As well, the Trump administration has negotiated fresh free trade agreements with Japan and South Korea, mainly seeking greater access for US farm exports and removal of restrictions on US autos, for which there is not much demand.

Trump had a particular aversion to China. Its trade surplus with the US is the biggest imbalance between any two

To make America's trade deal with China great, a re-elected President Trump must consider reviving the Trans-Pacific Partnership. PHOTO: BLOOMBERG

countries. He was riled China exported electronic products to the US, ignoring the fact a significant amount of value in these products is added in the US, before being sent to China for final assembly.

He railed against China for requiring US auto manufacturers (General Motors) to jointly manage the company with Chinese authorities and objected to China's requirement US IT manufacturers had to hand technology over when establishing in China. Beijing subsequently said it would remove those requirements.

Concern over Chinese intelligence engagement in US affairs also became an issue. But this is likely to be settled within political-military frames, not trade policy.

Trump has signalled to China a partial agreement can be reached on some issues. He proposed additional imposts on tariffs on Chinese imports would be parked and in return the US would seek Chinese acceptance of some agricultural exports.

China's trade surplus with the US is the biggest imbalance between any two countries.

It should be assumed this would be welcome relief to Beijing. There are signs that the US trade restrictions are causing inconvenience, and suggestions that China's growth rate is slipping along with the global economy.

Such an outcome would work for both the US and China. Trump has begun his re-election campaign. Most US voters are not interested in trade, except for the farm community, which, while hurt by blockage of US imports to China, still leans towards the President. Trump will also pitch again to steel workers for restricting steel imports,

although economists point out this will be economically counterproductive.

In this scenario, trade policy tranquillity could be expected until the next presidential election. If Trump is re-elected, what then? Trump's main challenge is he does not understand the economics of trade.

He has heavily criticised the membership of the WTO for not improving the dispute settlement process which resolves trade disputes. He has been careful, however, not to be overtly anti-WTO. He will seek change, but probably not until after the next election.

Will or can he replicate Obama and elect to join the TPP agreement? This would require him to address some important elements of modern trade agreements today that he has ignored. Electronic commerce fits in that place. Other new issues do not yet figure in his thinking.

The TPP agreement sets new standards which boost trade and go beyond standard operation in the WTO and most trade deals. These include investment and expansion of services. Opportunities for US business in Asian-Pacific markets would expand.

China was granted access to the WTO in 2001, the year the Doha Round of trade reform was launched. But China was not up to date to address the issues in that round. Its application for access was lodged in 1986.

It now found itself looking through an expanded WTO lenses that it was not geared to deal with.

It has been the jolting by the Trump administration that has led China to review where it stands vis-a-vis other WTO members. The Trump administration is calling the tune, albeit a bit off-key.

If Trump is truly concerned about China's trade surplus with the US and determined to reshape how China manages its trade, he should join the TPP deal and challenge Beijing to tackle the issues it has so far set aside.

Alan Oxley is principal of ITS Global, former chairman of the GATT and former chairman of the Australian APEC Study Centre.

Nobel poverty fighters show science can improve the world

Economics
Randomised testing can help explain why some groups and nations are worse off than others.

Richard Holden

This year's Nobel Prize in Economics was awarded jointly to Abhijit Banerjee (from the Massachusetts Institute of Technology), Esther Duflo (also from MIT) and Michael Kremer (from Harvard University) "for their experimental approach to alleviating global poverty".

Few people doubt that global poverty remains one of humanity's most pressing problems. Ten per cent of the world's population – more than 700 million people– live on less than $US1.90 a day, according to the World Bank. More than 5 million children younger than five die of preventable diseases every year. And half the children on the planet finish school without basic numeracy and literacy.

The question, of course, is what to do about it. There is often no shortage of seemingly plausible ideas about what might help alleviate poverty. More educational inputs, cleaner water, bed nets to prevent Malaria, subsidised preventative healthcare, access to finance, and information about HIV status are all potential interventions that come to mind. But which ones work, and which ones don't? And which provide the greatest "bang for the buck" in terms of outcomes?

Beginning in the 1990s, Kremer, Banerjee and Duflo began using randomised controlled trials – experiments – to understand the causal impact of different interventions. This method quickly came to dominate development economics and provide deep insights about how to best alleviate poverty. As Duflo put it after the prize announcement: "Our goal is to make sure that the fight against poverty is based on scientific evidence."

Randomised controlled trials (RCTs) are familiar in other fields. To understand

Ten per cent of the world's population are still in dire poverty. PHOTO: KATE GERAGHTY

whether a heart medication is effective, one would conduct a pharmaceutical trial. Out of, say, 200 people, half would be randomly selected to receive the heart medication and half to receive a sugar pill (a placebo). Because there is a large number of people in both the "treatment" and "control" groups, individual differences tend to wash out statistically. One can estimate the causal effect of how effective the medication is by looking at the average difference in health outcomes (e.g. the incidence of cardiac events) between the treatment and control groups.

Kremer, Banerjee and Duflo brought this idea into development economics, beginning with a series of experiments by Kremer and coauthors in Kenya seeking to isolate which interventions improve educational outcomes. Thanks to the work of these three scholars, this method quickly

revolutionised development economics. It also provided a much deeper understanding of the microeconomic determinants of the broader differences in development across countries. In a sense, the approach broke down the daunting problem of why some countries are poorer than others into more modular and manageable questions. And it was thanks in no small part to this year's laureates.

The Abdul Latif Jameel Poverty Action Lab (J-PAL) at MIT, which Banerjee and Duflo founded along with Sendhil Mullainathan (now at Harvard) has championed randomised evaluations around the world. Researchers affiliated with J-PAL have conducted nearly 1000 such trials in 83 countries.

Randomised trials, or "field experiments" as they are sometimes called when participants make their choices in their

"everyday" environment, have been used to address policy questions in other areas of economics. The gold standard for understanding what policy interventions improve educational outcomes in more developed countries is the randomised trial. This method has been used to understand the causal impact of class size, teacher quality, high-dose tutoring, school uniforms, teacher and student cash incentives, and student achievement.

This year's prize was also notable in that Duflo is just the second woman to receive the economics Nobel. She told reporters after the announcement: "Showing that it is possible for a woman to succeed and be recognised for success I hope is going to inspire many, many other women to continue working and many other men to give them the respect they deserve."

The Nobel Committee noted that, "as a direct result of one of their studies, more than 5 million Indian children have benefited from effective programmes of remedial tutoring in schools". And that there are now significant subsidies for preventative healthcare in many countries based on the experimental evidence of its effectiveness. On the other hand, there is mounting evidence that microfinance programs do not have the positive effects some once thought they did, once they are introduced at scale.

The Nobel Committee has shown impeccable taste in selecting three exemplary scholars who have changed the economics profession, and more importantly shown how to use scientific evidence to change the world.

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