

Mark Thirlwell

Trading off two world leaders

The Age

October 18, 2003

The PM must remind China and the US of the importance of world trade negotiations, writes Mark Thirlwell.

The coincidence of next week's visits to Australia of presidents George Bush and Hu Jintao provides John Howard with a golden opportunity to help shape the international economic environment. This opportunity to influence the thinking of these two key players comes at what could be a critical moment.

Sino-US economic relations are of great importance to the health of the world economy. As the world's largest economy, the US has long directed the institutions that manage international trade and financial flows. Moreover, it has been the driving force behind global growth over the past decade.

At the same time, the rising economic weight of China - now the world's third-largest goods exporter - has made it an increasingly important source of regional growth.

Unfortunately, economic relations between the two countries are under strain.

In Washington, a ballooning current account deficit, a "jobless recovery" and the political pressures associated with the build-up to next year's presidential elections have led US policymakers to focus on international economic issues and the need for external adjustment.

In particular, they have targeted China's growing bilateral trade surplus with the US. Washington has argued that its concerns about the trade "imbalance" should be dealt with through an adjustment in China's exchange rate peg to the greenback. But with a fragile domestic financial system, Beijing is understandably reluctant to contemplate any dramatic change to exchange rate policy.

This reluctance has resulted in US legislators advocating the imposition of tariffs on imports from China. With other economies also concerned about rising Chinese exports, any imposition of trade restrictions by the US could encourage other countries to follow suit.

China has become a hub for intra-regional trade, sourcing about 65 per cent of its imports from the region, and any disruption to Chinese exports would have damaging ripple effects across East Asia.

At the same time, the 1997-98 Asian crisis serves as an important reminder of how mismanaged exchange rate policies can also have serious region-wide consequences.

Australia therefore has a strong interest in using next week's meetings to urge the US and China to resolve their dispute in a way that does not have destabilising economic consequences for our region.

Sino-US tensions have arisen at a time when the international trade policy framework is under significant strain. The failure of the ministerial meeting in Seattle in 1999 and the collapse of last month's meeting in Cancun have cast doubts on the future of the World Trade Organisation-led

multilateral trading system itself. Countries are increasingly turning to bilateral, regional and other preferential trading agreements.

The risk is that in an international economic environment marked by growing trade tensions and pursuit of preferential trade agreements becomes an alternative to the present trade policy framework. This could result in the fragmentation of the international trading system, which would severely damage the fabric of the world economy.

The Prime Minister can use next week's visits by the leaders of two of the world's three largest trading nations to press both countries to work towards reinvigorating the Doha round of trade negotiations.

Last month's breakdown in negotiations at Cancun was due, in part, to the inability of advanced economies to reach agreement with a group of major developing countries, led by China, India and Brazil. In addition, there were administrative shortcomings in the WTO negotiating process.

The Prime Minister should stress that despite the problems at Cancun, there remains sufficient scope for the advanced and developing economies to bridge their differences and reach agreement on a new round of trade liberalisation.

In addition, he should propose that the two countries co-operate in finding ways of making the WTO negotiating process more efficient.

At a time when the world's leaders are increasingly concerned about international terrorism, Australia has a golden opportunity to remind George Bush and Hu Jintao of the importance of a well-functioning international trade regime for securing global economic prosperity and contributing to global security.

Mark Thirlwell is program director, international economy, at the Lowy Institute for International Policy.

This story was found at: <http://www.theage.com.au/articles/2003/10/17/1066364486775.html>