

## Asia Pacific Forum

Manila November 2017

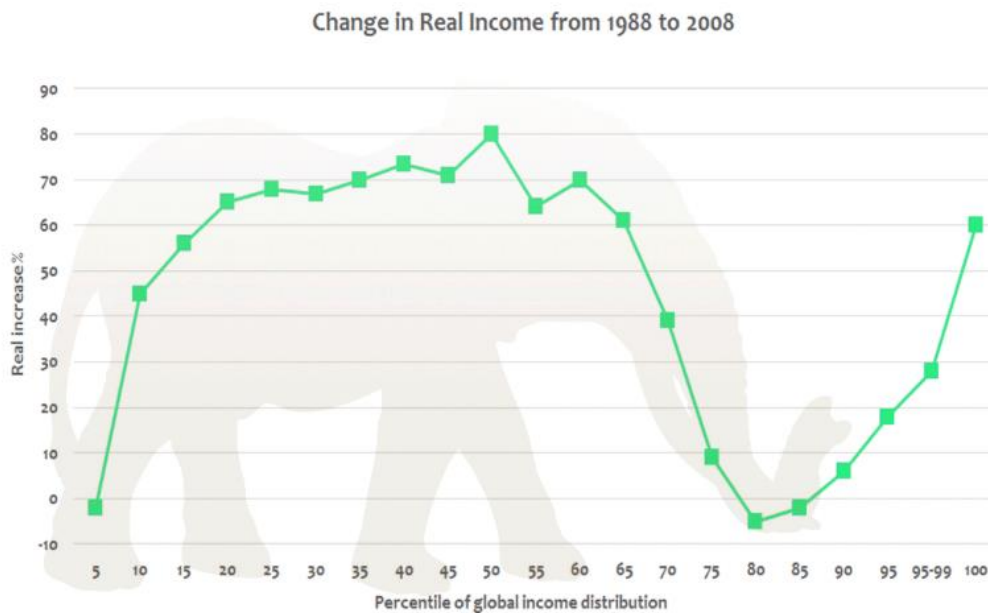
The economic and social insecurity experienced by those who are left behind, domestically or across countries, causes them to be more susceptible to the anti-establishment and xenophobic beliefs of populist parties and leaders—beliefs that are transmitted unabatedly through social media regardless of veracity. These derail the realization of an inclusive community that promotes high quality of life, equitable access to opportunities for all, and protection of human rights of all groups.

Guide Questions:

1. How has each country experienced the rise in populism?
2. How will populist sentiments affect the free trade movement?
3. What can be done to address populism? If populism leads to protectionism, how can each country counteract populism?

### Recent Experiences of Populism.

The populism of recent years is a set of related but different attitudes which have impacted differently in individual countries. The most fundamental common element is the changing distribution of world income:



32

The main relative beneficiaries of economic growth were in the emerging economies. Those whose share fell most were in the middle of the income distribution in advanced economies. The current surge in populism originated in the resentment of those in the US and Europe who felt that they were “missing out” as economic growth raised living standards elsewhere.

### The USA

The main manifestation in the USA was the election of Trump. “America First”, despite efforts to qualify it as “America First but not only America” is now the main challenge to Asia-Pacific economic integration. It is hard to credit that a major country can formulate its trade policy around bilateral balances in goods trade, let alone that its principal trade official

can express surprise that its trading partners do not share his enthusiasm for reducing bilateral balances. Canada and Mexico are those experiencing the first impact of the consequences of populism for US trade policy, but Korea and Japan are well aware that they are high in the queue. Less well-known is the prospect for the Asia Pacific Region as a whole. In an address in Canberra on 4 October 2017, the US APEC Senior Official said “We view that in this administration as a way of facilitating preparation going forward for any APEC economy to contemplate doing a high-standard type FTA with the United States at some future date, so we'll see how that progresses. But the administration is both committed to APEC as a regional undertaking for raising standards, and then of course having separately a set of bilateral undertakings that will help promote clear and open trade throughout our partners in the Pacific.” The thought of APEC as a finishing school for economies to ready themselves for a bilateral FTA with the US with constraints on any US bilateral deficit in goods trade marks abandonment of the vision of Asia Pacific economic integration which has existed for nearly thirty years.

But that is not the greatest challenge that Trump poses to world trade institutions. The most serious challenge is to the WTO, especially to the Dispute Resolution System. The US always finds it hard to accept international jurisdiction, often relying on the doctrine that nothing can be superior to the US Constitution. Earlier administrations usually ensured that obligations of membership of international institutions would be supported by domestic legislation so that international ruling would not conflict with constitutional doctrine. Even before Trump, the US was questioning WTO dispute resolution decisions, not even disguising its wish to distinguish dislike for particular decisions from distaste for international institutions. Refusal to reappoint a Korean member of the Appellate Authority was directly attributed to dislike of some of his decisions. Lighthizer, again the spokesman for the Trump administration, has explicitly warned that WTO decisions against the wishes of the US could be a challenge to the longevity of the WTO.

Conflict with conventional advocacy of a rules-based order extends beyond trade. We still hear a great deal about the liberal international order but the challenge to it does not come from China or any of the emerging economies. It comes from Washington. The core institutions of the international order established at the end of World War II are the UN and the WTO (the successor to GATT, since the US refused to contemplate the proposed International Trade Organization in the 1940s.) The UN is the only institution which can determine international law and authorize its enforcement. The US uses the UN when convenient – usually when it requires the acquiescence of China – and claims the right to act unilaterally whenever that suits it. So it claims the right to impose sanctions on Russia and to use access to the US market as an instrument for requiring other countries to accept US rules. As Tyler Cowen has observed, the US is reluctant to accept that it is has peer countries in the international community,<sup>1</sup> and unilateral action is no longer appropriate.

But who would put any confidence in any agreement with the US during the Trump Administration? That extends beyond trade to any aspect of international diplomacy, including security arrangements. The challenge to the international community is to preserve the UN system; the challenge to the Asia Pacific Region is to maintain the momentum towards economic integration while the US sits on the sidelines.

## Europe

Populism in Europe has been dominated not by an alleged loss of jobs to imports and offshoring by domestic firms, but by immigration. Especially in countries closest to migrants from the Middle East or from North Africa, politicians offering prospects of preserving a local culture, sometimes in the form of a mythical culture of homogeneity, have made

---

<sup>1</sup> Quoted in Sam Roggeveen “What the US doesn’t understand about China” *Lowy Institute Interpreter* (28 September 2017).

electoral gains. Even more remote countries of Northern Europe, including those in Scandinavia which have a history of tolerance and acceptance of migrants, have not been exempt. Social cohesion is challenged by a large influx from different cultures.

The most striking development in Europe was Brexit. It shared the wider European development, but it had its own features. Resentment of immigrants was linked to a belief that control had passed to remote authorities – “Brussels” or the EU could easily be portrayed as remote bureaucrats who were not part of the governed. That in turn could easily be mixed with a general belief that “experts” had got out of touch with the general population. If “Take back control” was at the centre of the motivations for Brexit, rejection of experts was central to the election result which far from giving Prime Minister Theresa May an enhanced mandate brought the apparently inept Leader of the Opposition close to power.

Brexit was not anti-trade. While Britain’s continued membership of the single European market was an issue in the Brexit campaign, much more prominent was the question of whether British trade could not be encouraged outside the constraints of European Commission control of trade policy. Even since attention became focused on the terms of Britain’s relations with the EU after Brexit, both the EU and Britain continue to talk of the benefits of economic integration.

The centre of populism is in the US and Europe, but even within those geographical areas, it takes different forms.

#### **Populism in other countries: the case of New Zealand**

Recognising the differences between the US and Europe precludes any search for a single populist movement in the Asia Pacific region. Rather some of the elements now usually seen as contained within populism have various manifestations within individual members of the Asia Pacific region. Furthermore, they interact with other elements of the domestic politics of those countries.

The Japanese election campaign was briefly marked by a surge of interest in a new political movement. This might be stretched into something akin to a rejection of the conventional, but it is hard to see much that could be regarded as populism. Japanese valuation of homogeneity and scepticism of immigration looks traditional rather than novel. We do not see any opposition to trade in Vietnam, and even when we find something along those lines in Indonesia, it looks like traditional scepticism that gains to consumers justify disturbance to incumbent domestic producers. While it is entertaining to contemplate the possibility that as China approaches a moderately prosperous middle-income status by 2025 and greater prosperity by the 2030s and 2040s, Chinese middle classes might become uncomfortable about losing jobs to less developed economies, there is no sign of such a development yet.

It might be expected that societies with more in common with the US and Europe would show more populism. Australian politics has always had a stream of populism, better known as “larrikenism”, but currently politicians seem more inclined to activate an arcane provision of the Australian constitution and disqualify MPs who have dual nationality. It is unlikely that this will have wider regional significance. A New Zealand election has generated a change of government, and a new set of ministers will now seek to reconcile their electoral commitments with logic and sense. There was an element of scepticism of globalisation in the platforms of the parties which now form the government but it is unlikely to generate a major change of stance. The government has to try to honour a commitment to prevent foreigners from buying existing New Zealand homes, a foolish commitment given the technical problems of recording beneficial ownership, the conflict between the intent and existing commitments in international agreements and the evidence that foreign purchases are a very small element in rising house prices. The government found an attractive evasion in declaring houses to be “sensitive” which meant they were covered by existing exemptions in trade

agreements. But it is a figleaf intended to preserve political credibility. The new prime minister has already realised that it is sheer folly to attempt to withdraw from regional integration initiatives, and the minor party in the coalition agreement, that which injects most thoughts of “populism”, has secured commitment to a free trade agreement with the Russia-Belarus-Kazakhstan customs union! We might think that “chaos reigns”, but it is better simply to reflect that new governments need time to sort out what they meant to say.

### **Populist sentiments and the free trade movement**

What is new in the context of regional economic integration is the stance of the Trump Administration in the US. The US has excluded itself from Asia-Pacific. We may hope that it is temporary but we should reflect that there were clear signs before Trump took office, and that anti-globalisation sentiment in Congress may well outlive Trump.

### **Counteracting Populism**

Despite being sceptical about conceptualising “populism” in the Asia Pacific Region, there is undoubtedly some suspicion that economic integration is not generating the expected increase in economic welfare for populations in general. The first requirement is probably to manage expectations. Hopes for the future are easily translated into “what we were promised” and furthermore into “what we were promised today”. Keeping a sense of proportion is important.

Equally important, is deliberate policy to spread the benefits of economic integration. The rhetoric of “trickle down”, “the 1%”, and simplistic beliefs that all inequality is undesirable has to be recognised as political propaganda intended to discredit orthodox economic thinking without offering any substantive alternative. At the same time, the objective of “inclusive growth” has to be pursued with vigour and not left as empty rhetoric. The key is readily apparent; it is to revive and maintain the momentum of the “Asian Miracle”, to use government interventions to facilitate adjustment to change and not to attempt to maintain activities which no longer have a firm economic basis.

There are other objectives, notably other elements of the APEC Yokohama Growth Agenda, sustainability and innovation, but the key to countering any incipient growth of populism and protectionism is to give high priority to inclusive growth.