East Asia Grapples with the Implications

Trump Upends Trade

Asia’s mighty trading giants, which have for years benefited from the seemingly inexhaustible US appetite for their exports, have now run headlong into US President Donald Trump’s fierce insistence that the terms of America’s trade with them has been fundamentally unfair. That clash, which could yet lead to trade wars, could upend the global order that has prevailed for decades.
US President Donald Trump’s combative ‘America First’ approach to trade relations has roiled countries around the globe, particularly in Asia, where Trump has complained of unfair deals. The administration’s stance threatens to upend the very world trade order that the US was instrumental in crafting after the Second World War.

Barry Eichengreen describes the risks posed by Trump’s policies and offers ways that America’s Asian trading partners might weather the storm.

ASIA CONTEMPLATES life after the liberal world trading order, one question looms above all others: Is it truly over, or is it simply the end of the era when the United States was the reliable leader of the multilateral system?

America’s position has unquestionably changed, for now at least. The US spearheaded the rebuilding of the multilateral trading system after the Second World War, notwithstanding missteps such as the refusal of Congress to ratify the Havana Charter that would have created the International Trade Organization in 1948. In 1971, President Richard Nixon imposed a unilateral 10 percent surcharge on all dutiable imports to cajole other countries into revaluing their currencies against the dollar. Ronald Reagan’s administration negotiated so-called voluntary export restraints on Japanese vehicle exports starting in 1981.

Such aberrations aside, the US stayed a staunch supporter of the liberal trading order. It helped push successive rounds of the General Agreement on Tariffs and Trade (GATT) to their successful conclusion. In the 1980s and 1990s, it counseled openness to developing and emerging economies as part of what came to be known as the Washington Consensus. While it was Canada that formally tabled the motion to create the World Trade Organization in the 1990s, the US backed it vigorously, including the initiative to create a dispute-settlement panel with binding arbitral powers.

BRAVE NEW WORLD

To all appearances, the situation today could not be more different. It is not exactly clear what the current US administration wants: to replace the
existing network of regional and multilateral arrangements with bilateral agreements, perhaps; to balance US trade, partner country by partner country; to run a surplus rather than a deficit in trade in motor vehicles and other manufactured goods; or to gut the WTO’s dispute settlement panel. The objective may vary depending on which White House adviser is speaking or what President Donald Trump just heard on Fox News.

Be that as it may, it is clear that the current US administration does not see the multilateral trading system as a public good to be nurtured and preserved. This shift is profoundly consequential, given America’s historic status in fostering the liberal trading order, and the simple fact that the US remains the world’s second largest exporter.

But is this really the end of the liberal order? Actually, 72 percent of Americans today see foreign trade as an opportunity, just 23 percent as a threat, according to the latest Gallup Organization poll. That 72 percent is sharply up on last year. Indeed, the share of Americans viewing trade positively has been rising steadily since 2012 and is now at its highest in the last quarter century.1

The word “opportunity” means different things to different people, of course. Americans are more skeptical of the merits of trade, by and large, than the residents of other countries.2 But Gallup has been asking the same question for years. The answers simply do not support the assertion that the average US respondent is growing more hostile or even skeptical toward trade. Trump’s aggressive anti-trade stance may appeal to his base, but it is not clear that it appeals to Americans more broadly. Notice in this connection the push-back against his recent tariff proposals from business, banking and agriculture.

And there is even less support in countries other than the US, as already noted, for abandoning the liberal order. Asian governments, in particular, remain as committed as ever to export-led growth and global integration, a posture that has served them well over the years. There can be no clearer indication than the decision of America’s 11 spurned Trans-Pacific Partnership (TPP) partners to go ahead with that agreement, re-christened the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

TRADING WITH TRUMP

But how should Asian countries respond to the continuing uncertainty created by the actions of the Trump administration? One answer is: Don’t respond. It is not inconceivable that the three-quarters of Americans who see trade as an opportunity will turn against a protectionist president. Or that this president, in the interest of political expediency, will recalibrate his trade strategy in more cautious directions, in the manner that he may have already recalibrated his approach to the North American Free Trade Agreement (NAFTA).

If this is right, the best strategy for US trade partners, in Asia as elsewhere, is to avoid overreacting to Trump’s provocations, as this could lead to escalation. Instead, they should remain committed to the status quo. They should wait him out. And if the US administration can be pacified by symbolic concessions, Asian countries should offer them. There is always the danger, to be sure, that modest concessions will encourage Washington to make even more unreasonable demands. But concessions are also a way of buying time for sanity to reassert itself among American policy-makers.

South Korea went down this road when renegotiating the Korea-US Free Trade Agreement. Its main concession was to relax terms and quotas for imports of US vehicles and parts, cars seeming to be what Trump cares about most. But the existing quotas have never been filled, given the limited appetite of Koreans for American cars. Observers had warned that South Korea was in a weak position going into negotiations, given its depend-

1 http://news.gallup.com/poll/204044/record-high-foreign-trade-opportunity.aspx
2 https://link.springer.com/chapter/10.1057/9781137373250_2

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Second, Beijing offered the US administration a way out. It offered face-saving concessions.
ence on the US for its defense umbrella. But it was nonetheless able to successfully revise the agreement without having to offer major concessions. That outcome reflects the fact that the US needs Seoul’s close co-operation in dealing with North Korea, which is why Robert Lighthizer, the American trade negotiator, was told to tread lightly.

Other Asian countries, specifically China, are unlikely to get off as easily. As the béte noire of Trump’s trade advisor Peter Navarro, the country has already been targeted by the administration’s steel and aluminium tariffs, by prospective duties on US$50 billion of exports and by the threat of duties on an additional US$100 billion of exports. Here China showed the appropriate reaction to US provocations. First, Beijing carefully calibrated its response. It reacted to tariffs on US$3 billion of steel and aluminium exports by announcing tariffs on exactly US$3 billion of US exports. It responded to the list of tariffs on US$50 billion of US imports by announcing a list of tariffs on exactly US$50 billion of US exports. In each case it avoided escalation. Second, Beijing offered the US administration a way out. It offered face-saving concessions, for example, reiterating its earlier promise to address the bilateral trade imbalance over time. It would be wise for those negotiations to resume. The question, again, is whether an impulsive US president has the patience to bring them to a successful conclusion.

BLOC AND TACTILE
But what should China and other Asian countries do if talks with the US break down? By rejecting the TPP, the US squandered a unique opportunity to build a 12-country coalition that might have effectively pressured China on intellectual property and market-access-related measures. In doing so, Washington also opened the door for China itself to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. China always regarded the TPP as a US-led initiative designed to limit its influence in the region. Now it looks like a plain-vanilla free trade area encompassing not just East Asia but also Canada, Chile and Peru. The CPTPP agreement thus offers China a vehicle for surmounting the obstacles that prevented the initiation of bilateral free trade negotiations with Canada last year, given that Justin Trudeau’s government has now committed to a number of disagreements with Asian countries in order to bring CPTPP negotiations to a successful conclusion. It offers China a further toehold in South America, Washington’s backyard since the era of President James Monroe. It promises to create a larger market than China’s own alternative, the Regional Comprehensive Economic Partnership (RCEP).

Other Asian countries may hesitate to admit China into their new club on the grounds that Beijing might then attempt to force through changes to provisions not to its liking. China may seek to water down CPTTP rules governing state-owned enterprises and partners’ access to domestic e-commerce markets, for example. It may attempt to weaken requirements that members open their economies to foreign investment, and provisions allowing them to submit investment disputes to an independent arbitration tribunal.

More generally, other Asian countries may have doubts about forging even closer economic ties with China now that CPTPP no longer includes a powerful countervailing force in the US. On the other hand, it will be easier to hold China to internationally accepted rules when those rules are already embodied in a regional agreement. It will be easier to deal with China when those rules — crafted in part, ironically, by an earlier US administration — are designed to ensure equal treatment for all members. Other Asian countries are already so deeply integrated with China via foreign direct investment and regional supply chains that their only realistic option is to advance further down that road. CPTTP provides a framework and protections suitable for doing so. And by standing together, the other countries can limit Beijing’s ability to alter CPTTP’s rules of the game.

A liberal trading order that excludes the US is a second-best liberal trading order. But a second-best order in which China and other Asian countries, together with the Western Hemispheric members of CPTTP, join together in a rules-based preferential trade agreement would appear to be the best arrangement currently on offer.

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