Donald Trump’s shock election to the US presidency in November 2016 sent waves of uncertainty throughout capitals around the world about the future direction of US foreign policy. In Asia, leaders are coming to terms with what a Trump presidency could mean for the region, especially for hot spots such as North Korea and lingering tensions among Asia’s major powers.
Asia’s Trump Peril: Reckoning with Economic Conflict

Since the end of the Second World War, trade has been central to the relationship between Asia and the United States. As a vibrant and relatively open market for Asian exports, the US played a pivotal role in ensuring the success of the export-oriented model that fueled economic growth in the region for decades. Moreover, the US largely led the creation of the post-war liberal economic order that has defined globalization in the modern era. US President Donald Trump now threatens to overturn, or at least radically alter, that longstanding role. Miles Kahler explores the economic challenges ahead.

THE CAMPAIGN and then election of Donald Trump shook the foundations of American foreign economic policy. Not since the 1992 third-party candidacy of Ross Perot has trade occupied such a prominent place in a US presidential campaign. Presidential candidates in the past have often denounced China and Asian economic competitors, only to confront the need for compromise and co-operation in office. Candidate Trump lambasted both rivals (China) and allies (Japan, South Korea) during his campaign, questioning patterns of economic interdependence and strategic alignments. In office, however, Trump has faced the same dilemmas as his predecessors. Less certain is whether he will negotiate the same compromises in order to maintain the outlines of the established order in the Asia-Pacific region.

EXPLAINING AND PREDICTING TRUMP’S FOREIGN POLICY

The erratic course of the Trump administration’s foreign economic policies toward Asia could support competing explanations. One perspective, voiced frequently during the election campaign, is that Trump has no fixed beliefs: he seems to absorb his policy positions from his latest conversation, a media news feed or a shared website.

A more convincing alternative view is that he has a relatively small number of fixed beliefs that he has held tenaciously for decades, providing a worldview that diverges starkly from the Cold War and post-Cold War consensus in both political parties. On foreign economic policy, Trump’s core beliefs are decidedly of another era, although both intuitive and popular among a wide contemporary audience. He is a mercantilist: exports are good; imports are bad; bilateral trade should be balanced or in surplus (apparently, with all trading partners). In the face of modern macroeconomics, Trump believes that trade barriers — and tariffs in particular — are useful for correcting trade imbalances, even as he supports economic policies that are likely to expand the current-account deficit.1 His views on trade align with a deep suspicion of, or opposition to, nearly all recent trade agreements, such as the North American Free Trade Agreement (NAFTA) and the Trans-Pacific Partnership (TPP), as well as multilateral institutions that promote trade, such as the World Trade Organization (WTO). He views bilateral trade agreements more favorably, since they allow the US to exploit its bargaining power with weaker partners.

Trump’s rhetoric regarding Asia during the campaign was an overheated version of these beliefs. In office, the president’s preferences have been filtered by political constraints. His top foreign and economic policy advisors are drawn exclusively from the military and business. They have sought to tilt the administration’s policy toward Asia in a more conventional direction, while accepting the “America First” rhetoric of the president. A core of nationalist advisors has weighed against their influence. Even the apparent weakening of the nationalist wing following the departure of Steve Bannon has not, however, submerged the president’s own preferences. In his November speech to the Asia-Pacific Economic Co-operation summit in Da Nang, he returned to his America First approach on trade and voiced his hostility toward multilateral trade agreements that “tie our hands, surrender our sovereignty and make meaningful enforcement practically impossible.”

A second significant constraint is imposed by Congress and its role in setting trade policy. Republicans in Congress have important ties to the business establishment, represented by the US Chamber of Commerce and other trade associations. Some of those actors may be in favor of trade protection directed at Asian competitors. However, most of the large firms represented by the Chamber have been hostile to Trump’s opposition to TPP and other trade agreements and express concern about the threat of a trade war with China.

Finally, since Trump must be concerned about re-election, he is subject to the pressures that he perceives from the electorate. Early in his administration, however, Trump deviated from the political course of most other presidents. Rather than accommodating the center or those who did not vote for him, he has acted, spoken and tweeted to mobilize his base, the hard core of supporters who represent between 30 percent and 40 percent of the electorate. In taking a hard line on trade, he not only represents the views of those voters, he also undermines Democratic opposition, since many Democratic legislators and interest groups (though not Democratic voters) share his hostility to liberalized trade and trade agreements.

LARGE THREATS, LIMITED ACTIONS

The back-and-forth produced by unpredictable interventions by the president, a more cautious set of senior advisors and domestic political calculations have led to a pattern that has been costly and often confusing. First, the administration wields linkage between economic and security issues much more explicitly than previous administrations, although that linkage is not always exercised and, when it is, its effects have been limited.

Second, the administration’s proclaimed sympathy for industries threatened by “unfair” for-

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eign competition has opened the gates to claims for administrative trade protection and threats to use trade instruments that have rarely, if ever, been deployed since the creation of the World Trade Organization (WTO).

Third, in keeping with the president’s worldview, the administration’s foreign economic agenda toward Asia has been largely backward-looking, highlighting issues from past decades, such as steel imports, and neglecting issues that will shape Asia-Pacific economic relations in the future. Many of those new issues, such as cross-border data flows, were dealt with in the TPP. Trump withdrew the US from that trade pact shortly after taking office.

Finally, the president’s insistence on disrupting existing policies that he defines as failures—particularly those enacted by his predecessor, Barack Obama—has led to an Asia-Pacific strategy in which radical presidential rhetoric has departed from the policies of previous administrations, both Republican and Democratic. His fiery rhetoric has usually been followed by more modest policy changes, however, creating doubt regarding the eventual course of the administration. Perhaps the most striking example was the widely reported plan in August 2017 to withdraw from the Korea-US Free Trade Agreement (KORUS), a decision that was later transformed into a call to renegotiate parts of the agreement.

CHINA: TRADE RIVALRY MEETS THE NORTH KOREAN THREAT

China exemplifies the Trump administration’s difficulty in squaring its trade agenda—which portrays China as a threat to US wellbeing—with its emerging security agenda in which the North Korean nuclear and missile programs have quickly risen to the top. Building a coherent strategy toward China has also collided with the president’s hostility toward regional trade agreements. Trump’s withdrawal from the TPP discarded an instrument that would have allowed the US to shape future economic relations in the Asia-Pacific region and offset the growing economic attraction of China.

Despite the vitriol that Trump directed against China during his campaign, the first summit he had with Chinese President Xi Jinping went well, and a measure of personal rapport was established that persisted as alarms over North Korea’s nuclear program have grown. Nevertheless, the administration has pressed for trade concessions from China in line with the president’s belief that trade with China is unbalanced and harmful to the US economy.

The administration’s negotiations with China have been marked by several characteristics. Its attention has been directed primarily to sectors that were damaged in the well-documented China trade shock of the first decade of the century, in keeping with the president’s backward-looking, “Make America Great again” emphasis. In attempting to end trade patterns that are seen as unfair and unbalanced, the administration has been prepared to threaten, if not wield, trade instruments that have seldom been used by recent administrations. These include measures based on national security (steel and aluminum) as well as protection based on findings of injury by the US International Trade Commission. By far the most important step targeting China was the initiation of a Section 301 investigation into China’s violations of intellectual property protection, including measures taken to force US companies to transfer intellectual property as a condition for conducting business in China.

These threatened protectionist measures have not resulted in any immediate or substantial Chinese concessions. The Chinese measures announced after the first round of negotiations in April were regarded by US business as mini-
mal; a second round of high-level negotiations in July were equally unsatisfactory from the Trump administration's perspective. Trump's state visit to Beijing in November also resulted in little visible progress on trade issues and witnessed his remarkable statement blaming previous administrations rather than China for US trade deficits. Once again, Trump expressed confidence in Chinese forbearance on threatened protectionist measures. The president's rhetoric suggests that a rebuke of Trump's distrust of multilateral trade agreements would not be the vehicle for resolving the bilateral trade imbalance. In another rebuke of Trump's distrust of multilateral trade agreements, the remaining members of the TPP (the so-called TPP-11) announced that negotiations for the renamed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) would move forward. Japan and other Asia-Pacific trade partners made clear that, despite the complaints of the US president, this trade liberalization effort would continue, without the participation of either China or the US.

ANXIOUS ALLIES: SOUTH KOREA AND JAPAN

North Korea has also influenced the Trump administration's trade policies toward South Korea. Despite his exhortation of the KORUS FTA and threats to withdraw from the trade agreement, Trump's advisors oppose such a step when collaboration between South Korea and the US on the North Korean issue must appear seamless and untroubled. As in the case of China, the administration also seems unaware of US economic interests that are invested in the status quo, particularly agriculture, which has made important gains from the FTA. These blinkers extend to the domestic political stakes for South Korea's new president, Moon Jae-in, who was supported by a left-leaning coalition that would not accept unlimited concessions to the US. President Moon's task has been made more difficult by Trump's portrayal of the THAAD anti-missile system as a benefit to South Korea, which South Korea should pay for, rather than a politically difficult concession by the South Korean president. The negotiations initiated to bring the KORUS agreement in line with the administration's preferences, which are only just beginning, are likely to be difficult.

Japan has benefited from the shrewd, early moves of Prime Minister Shinzo Abe to cultivate Trump. The economic agenda with Japan is dominated by the US decision to withdraw from the TPP. Although administration officials have indicated that a US-Japan bilateral free-trade agreement would fit with the president's agenda, Japan sent clear signals early in the administration that such an agreement would not supplant other free-trade initiatives or progress on the TPP without the US. During Trump's visit to Tokyo in November, the president accused Japan of trade practices that were not fair and open, but Japan's finance minister, Taro Aso, declared soon after the president's departure that a free trade agreement would not be the vehicle for resolving the bilateral trade imbalance. In another rebuke of Trump's distrust of multilateral trade agreements, the remaining members of the TPP (the so-called TPP-11) announced that negotiations for the renamed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) would move forward. Japan and other Asia-Pacific trade partners made clear that, despite the complaints of the US president, this trade liberalization effort would continue, without the participation of either China or the US.

LEVERAGE, LINKAGE AND ASIA'S ECONOMIES

Because of their scale and the longstanding political sensitivity of their relations with the US, Northeast Asian economies have absorbed most of the attention paid to Asia by the Trump administration. Southeast Asian economies received less attention as either trade offenders or partners in pressuring North Korea. During his appearance at the summit of the Association of Southeast Asian Nations (ASEAN) in November, Trump did not announce new economic initiatives that might replace the reassurance embodied in TPP. India also seemed to enjoy an economic reprieve from the president — barely mentioned during the campaign and not viewed as an economic threat equal to China.

In its first months, the Trump administration's threats to overturn existing trade relations with Asia have, for the most part, remained threats and produced few concrete results. At his stops on the November tour of Asia, the president announced new deals for the purchase of American imports or new investments in the US, but none will redress the economic imbalances that he has vowed to redress. Other volatile economic issues, such as China's currency manipulation, have faded into the background, subsumed by the North Korean crisis and changes in Chinese policy. An impatient and impulsive president, however, may not be content with incremental change in trade relations that may not satisfy his political base.

Of greater importance and concern is the Trump administration's attachment to issues and instruments rooted in the past. Instead of dealing with the threat of China's clearly outlined industrial policy (Made in China 2025) and its implications for trade and investment, the administration has focused on issues that remain important for specific sectors but will have limited effect in building a more open and symmetric set of relations between the US and its major trading partners in Asia. In dealing with competition that the US views as unfair but that may be legal under the WTO, new rules agreed and enforced on a multilateral basis will be required. The TPP represented just such a US-led multilateral strategy, and it is precisely that strategy that the Trump administration has rejected. Neither broad commitments to a “free and open Indo-Pacific” populated by countries that are “strong, independent, and prosperous” nor repeated complaints about the absence of fair and balanced trade are likely to serve as a substitute.