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Trump's Trade War: How should Asia Respond?

By Pradumna B Rana

Summary

President Trump's policies are undermining the post-World War II rules-based multilateral trading system. Countries in the European Union and Asia should resist, and speak up. They should also strengthen the G20.

Commentary

On 1 June, President Trump launched the opening salvo of a trade war by unilaterally imposing tariffs on steel and aluminum imported into the country from the European Union (EU), Canada and Mexico. Canada has announced that it will "move forward with retaliatory measures on July 1, applying equivalent tariffs to the ones that the Americans have unjustly applied to us." The EU and Mexico have their guns loaded.

The US and China, the two largest economies of the world, are also at the brink of a trade war. On 15 June, Trump announced tariffs on US \$50 billion of Chinese goods and warned that any retaliation by Beijing would trigger another round of tariffs on Chinese goods. But China struck back within hours slapping the same amount of tariff on American imports, from agriculture and seafood to cars and energy products. The results of negotiations previously reached by the two parties are also invalid.

Although hopefully the worst can still be avoided, the experience of the 1930s and the subsequent Great Depression suggests that trade wars can have serious economic and social consequences not only in the warring countries but the entire global economy. The IMF has warned that Trump's controversial new import tariffs

pose a stark threat to the global trading system and will ultimately damage the US economy.

In addition to starting trade wars, Trump's trade policies are undermining the post-World War II rules-based multilateral trading system established ironically by the US, as the hegemon, with the cooperation of other like-minded countries mainly in Europe. Under the auspices of the GATT and its successor the WTO (since 1995), globally tariffs had fallen to record low levels, volume of international trade had expanded manifold, and unprecedented economic prosperity had been achieved all over the world.

Trump's Threat to Withdraw from WTO

Seventy years on, the Doha Round has stalled and some of the WTO rules and exceptions to the rules need to be revisited. But instead of reforming the institution Trump has threatened to withdraw the US from the WTO if it continues to rule against the country. The latter could happen if, for example, the WTO rules unfavorably on the recent metal tariffs which the US imposed on national security grounds so that they are consistent with a little-used WTO rule.

Another way that the US is undermining the WTO is by refusing to appoint new judges to the WTO Appellate Body accusing it of bias against the US. When the next judge's term expires in September the Appellate Body will not have the requisite three members to adjudicate disputes. The WTO has traditionally appointed judges based on consensus among its members. Perhaps it is time to change this method to save the rules-based system.

From G7 to G6+1

At the recent G7 summit, with a single tweet from Air Force One while flying to Singapore, Trump drove a deep wedge between the US and other G7 countries that traditionally consider themselves Washington's closest allies. These countries had cooperated closely with the US and helped it to build the post-World War II rules-based trading system. The summit was a fiasco. The future of the G7, which is supposed to be an oversight body for global matters including trade, is therefore uncertain. Contrary to what Trump had said at the recent Davos meeting that "America First does not mean America Alone", the G7 is now being described by many as G6+1 with the US being isolated.

How should the rest of the world including Asia respond?

Given that the rules-based multilateral trading system is under threat, countries in the European Union and in Asia (such as Japan, China, and India) should unite, resist, and speak up in favor of the WTO. They should also cooperate more closely in resolving issues, for example, on agriculture trade and in reforming the WTO. One reform proposal is that the WTO should address the 21st century trade issues which are "behind the border" issues such as rules for investment protection, intellectual property and regulations on product standards and their harmonization. Global value chain or parts and components trade now comprise about 70 percent of global trade. Currently the WTO focuses on 20th century trade issues such as tariffs,

quotas, and subsidies. It is the mega-free trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and, to a lesser extent, the Regional Comprehensive Economic Partnership (RCEP) that are focusing on 21st century trade issues.

G7 to G20?

It is also time to start thinking of replacing the G7 with the G20. Of course, the G20 is not perfect and there is a need to enhance both its “input” legitimacy – its exclusive nature and lack of broader representation - and “output” legitimacy – its ability to strengthen international cooperation and come up with solutions. But it is the only forum where, in addition to the G7 countries, systemically important emerging markets have a representation and voice. The G7 members once ruled the world but now their share of world GDP is declining from about three-fourths in the 1990s to about one-half currently. The G7’s share of world population has also declined from about 20 percent to 15 percent during the same period, with aging populations in most countries. On the other hand, the G20 accounts for 85 percent of the world’s GDP and over 60 percent of its population and is more relevant. It could well save the global trading system from the depredation of the go-it-alone tendency of the US.

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