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Trump in Asia: Free Trade Under Threat?

By Aédán Mordecai

Synopsis

'America First' has been the prevailing tagline guiding Trump's trade policy. As he returns from his recent extended tour of Asia, what is the outlook for US-Asia trade?

Commentary

PRESIDENT TRUMP's visit to Asia on one of his longest foreign tours to date, as leader of the world's largest economy, went relatively quietly. The five-country visit which began in Japan and ended in the Philippines included some important events such as the Asia-Pacific Economic Cooperation (APEC) Summit in Danang, Vietnam as well as the ASEAN Summit in Manila, Philippines.

Whilst trade issues were high on his lists of priorities, the tour was arguably dominated by the North Korea and South China Sea situations. Economic observers will have been watching his words carefully, looking for clues as to which way his future trade policy towards Asia might be headed and whether there is reason to worry.

Trump's Protectionist Tendencies

The worries regarding trade and potential protectionism all stem from last year's presidential campaign in the United States. Trump rode into the presidency thanks in part to a wave of populist anti-globalist sentiment, with trade deficits continually on the agenda. China faced the worst accusations but the overall narrative was that America had made bad deals in the past and this was proven by the consistent trade deficits that America had with many major economies.

Coming under particular scrutiny were multilateral trade deals. NAFTA was labelled

the 'worst trade deal ever made' and the proposed Trans-Pacific Partnership (TPP) was constantly ridiculed, with one of Trump's first official acts in office being the formal withdrawal from the TPP.

Understanding Trump's perception of trade is key to making sense of his priorities. His administration has cultivated an image of a global system that contains clear winners and losers, painting deficits as 'bad' and surpluses as 'good'.

Many economists would disagree with the absoluteness of this perspective, especially in the age of production networks that span multiple countries, meaning the fluid movement of components is crucial for many industries. Trump's mercantilist-like views on trade ignore the nuances of trade and mutual benefits, in favour of an alternative zero-sum game reality.

No Drastic Moves on Trade?

Since his inauguration and the withdrawal from the TPP there have not been any drastic moves regarding trade, but tension still exists. Peter Navarro, who was made head of the White House Office of Trade and Manufacturing Policy, is a notoriously anti-China economist when it comes to trade, and many will be wondering how much influence he has over the White House's policies.

The WTO has also been targeted by the Trump administration by blocking the appointment of judges needed for the organisation's much admired Dispute Settlement Body as well as failing to nominate a permanent representative to the WTO. Trump has consistently been disparaging of the multilateral institution, insisting the US loses 'almost of the lawsuits', despite the reality being entirely different.

Meanwhile, in April a comprehensive review of all trade relations was ordered by the White House, country by country and product by product. All the signs seem to suggest protectionist moves will follow, and will be applied bilaterally, bypassing the multilateral system.

Though the trip to Asia did not produce any shocks in terms of trade, as the president's tweets aimed at the Kim Jong Un regime somewhat overshadowed the tour, he largely stuck to his script. However, there were indications of Trump's 'America First' trade policy. While in Japan, Trump declared that trade between the two countries 'was not fair and isn't open', suggesting Japan should manufacture more of its cars in the US, seemingly oblivious to the fact that the majority of Japanese branded cars sold in the US are also produced there.

In China he described the current trade relationship as very 'one sided' but used this point to attack the previous administration's weakness and exonerating China of any blame stating, 'Who can blame a country for taking advantage of another country for the benefit of its citizens?'.

Then came the APEC Summit in Manila, which gave a platform for Trump to state he was pursuing 'fair trade', a similar message that had been communicated at G20 earlier this year. The emphasis on 'fair trade' as opposed to 'free trade' is pertinent as

the US administration tries to change the narrative making room for protectionist based policies in the future.

Should Asia Be Worried?

If protectionist measures are taken by the US, it is important to consider what shape they will take and the process. Constitutionally, Congress has to approve imposing a tariff on products from another country, and given Trump's inability to work successfully with Congress and the pro-free trade nature of the Republican Party, this seems unlikely.

He has other options, however, which can be carried out unilaterally, through rarely-used legislation or creative taxes indirectly targeting imports. The most likely target in the near future would be steel coming from China, as it could be carried out via executive orders. This is despite the fact that imports of Chinese steel have already been significantly reduced, thanks to previous anti-dumping measures.

Predictability has not been a hallmark of the Trump administration so it is difficult to know what exactly the future holds. However it would be overly optimistic to think that Trump would last the rest of his term without making a move on trade, as it would be hugely popular with his base.

George W. Bush set a precedent here by putting tariffs up to 30 percent on all steel imports in 2002, to placate the 'rust belt' states despite international protests. Playing to Trump's base, particularly during moments of heavy pressure, is probably the most predictable trait of his presidency so far.

Considering he has created a narrative that deficits equate to a bad trade relationship, he will be judged by this measure and will come under increasing pressure if the trade numbers, particularly with many Asian economies, do not significantly swing the other way.

The tour of Asia seemed to be setting the scene for a different approach to trade and preemptively justifying protectionist measures. The worry for Asia, and especially ASEAN, is if this will lead to a chain reaction of protectionism, or will remain an isolated incident.

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