

Still a believer in multilateral trade

Centennial Asia Advisors' [Manu Bhaskaran](#) calculates the cost of US protectionism on Asian nations



**Manu
Bhaskaran**

The most impressive economic development experience in recent decades has been the dramatic transformation of countries such as China, Korea, Taiwan, Hong Kong, Singapore, Thailand and Malaysia. These nations achieved middle income status within a few short decades when others had taken generations to reach the same level.

Topic: Trade

Keywords: Diversification, Asia, US

Background Info: Asian nations are working hard to set up a safety net of trade pacts to counter increasing US protectionism

“Asian countries are stepping up the pace of working out new trade arrangements to diversify their markets away from the US”

They all have one thing in common – an export-oriented economic development model. Without access to global markets and substantial inflows of foreign direct investment, these countries would probably have struggled to generate and sustain high growth for so many decades. Foreign direct

investment served as a short cut to rapid development since foreign investors brought with them a package of capital, technology, access to markets, brands, and management skills that would have taken decades to replicate on their own. Moreover, competition in global markets forced export-oriented economies to keep improving their skills and product quality which helped to accelerate economic development.

Not surprisingly then, Asian policy makers and businesses are greatly concerned by recent political developments in the advanced economies: A populist backlash might not only threaten access to markets for Asian exporters but it could also deter foreign direct investment. From an Asian perspective, the key questions are – how much protectionism is there likely to be, which countries are most at risk and what can Asians do about it?

ONES TO WATCH

The main risk from populism appears to be from the US, once a fervent promoter of globalisation in many forms. If there is one thing that President Donald Trump appears to feel strongly about, it is that the US has been short-changed by this globalisation. He believes that America's trading partners have not played fair and that this has caused it to suffer huge trade deficits and the destruction, in his mind, of good jobs in the American heartland – partly because of cheap exports from abroad but also because American firms relocated production to cheaper manufacturing locations.

Consequently, as Mr Trump's trade policy team is fully staffed and gets to work, Asia will have to prepare for more trade restrictions. While the Trump Administration may have its share of pragmatic policy makers who value open markets, President Trump's Commerce Secretary, Wilbur Ross and Trade Representative Richard Lighthizer share President Trump's dim views on trade. In any debate within the White House, we should expect President Trump to side with the opponents of freer trade.

There are several areas of concern in the coming months. First, existing trade agreements could be re-negotiated or ended completely. One of President Trump's earliest actions was to pull the US out of the Trans-Pacific Partnership Agreement (TPP). The TPP had brought 12 Asia-Pacific countries together in a trade accord that many trade specialists agreed was a high-standard one, in that it had the potential to really open markets and generate substantial benefits over time. Also, the Trump Administration has already signalled that it wants to re-negotiate the Korea-United States Free Trade Agreement but it is not clear if others such as the free trade agreement with Singapore will also be re-negotiated. Certainly, there will be no new trade agreements with the US for some time to come. President Trump has said he prefers to negotiate bilateral rather than multilateral agreements but it is not clear how many Asian



Asian nations need to play tactically to secure trade deals

countries will oblige him since his Administration is virtually certain to drive hard bargains which would be politically unpalatable for most countries.

Second, new trade restrictions could be imposed and existing legislation interpreted in broader ways to allow the Administration to introduce wider restrictions. Already, the Trump trade team is looking at how national security can be used as an excuse to impose curbs on imports of sensitive items such as steel and semiconductors, for example. It is almost certain that we will see a proliferation of trade restrictions affecting Asian exports over time – tariffs, quotas and tighter standards.

Third, the Administration, by calling out large American firms that continue to relocate production out of the US to Asia, could deter foreign investment vital to Asia's next phases of economic development. However, in this case, after a few prominent cases where President Trump intervened noisily to prevent such relocations, the Administration has backed off. Business lobbies appear to have succeeded in persuading the Administration that it should not interfere in such purely business cases. Anyway, in much of Asia, it is East Asian investors who provide most of the direct investment they seek, with the US playing a smaller role. In other words, this aspect of populist risk appears to have been contained.

COUNTRIES AT RISK

We suspect that American protectionism will be targeted rather than generalised. The key factors that will determine which countries are at risk are likely to be the following:

- Does the country run huge surpluses with the US? When measuring total trade including goods and services, China is by far the country with the largest trade surplus with the US, but Japan, South Korea, India, Vietnam, Malaysia, Thailand and Indonesia also run significant surpluses. Singapore and Hong Kong run deficits with the US and are less vulnerable.
- Could the currencies of these countries be deemed to be under-valued? How to determine whether the valuation of particular currencies is appropriate or not is a controversial subject. The Administration is likely to look at countries which actively manage their currencies and whose currencies have weakened significantly in recent years against the US Dollar. In this respect, China is less at risk while countries such as Malaysia which suffered sharp drops in their currencies in recent years might be targeted.
- Does the country have a well-established free trade agreement with the US? In the course of negotiating such agreements, the US and the partner country usually resolve longstanding disputes over issues such as currency manipulation and market access for sensitive products. Thus, having a well-established free trade agreement with the US would help to some extent. However,

only Singapore enjoys this, since the fairly recent Korea-United States agreement is being re-negotiated.

- Does the country have an important strategic relationship with America? Japan and South Korea are treaty allies of the US. Moreover, with North Korea posing more of a threat with its improving nuclear missile capacity, the US needs Japan and South Korea even more, reducing the incentive for the Trump Administration to pick a fight with these countries. Other countries such as Singapore also have substantial strategic ties with the US and are therefore protected to some extent.



Japan's trade deal with the EU will help its shipping lines

Credit: Kees Tom

This framework suggests that, among Asian nations, China will probably be the principal target of American protectionism. That risk has grown all the more seriously for China because of the Trump Administration's annoyance that China is not willing to use its considerable political and economic leverage on North Korea to press it to step away from its nuclear weapons programme.

In short, the populist backlash, especially in the US, is likely to result in some increase in sector and country-specific trade restrictions but not a collapse into wholesale protectionism and closing of borders as happened in the 1930s. China is very much at risk but other Asian economies are likely to see pin pricks on a sector-basis than anything more serious.

Nevertheless, there is still a risk that should political stresses worsen in the US, the Trump Administration might be tempted to widen its campaign of trade restrictions. That is why Asian countries are stepping up the pace of working out new trade arrangements to diversify their markets away from the US. Japan pulled off a major trade agreement with the European Union, for example and the remaining 11 members of the TPP are negotiating to see if they can proceed with the TPP without the US. Sixteen Asia-Pacific countries are also negotiating the Regional Comprehensive Economic Partnership Agreement in an effort to keep the momentum of multilateral trade opening.

Overall, the risks of populism are real but Asia is likely to be able to contain these risks. **SN** *Manu Bhaskaran is chief executive of Centennial Asia Advisors, based in Singapore.*