

RIETI BBL Seminar Handout

“No Turning Back:
Trade Policy in the Trump Era”

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<https://www.rieti.go.jp/jp/index.html>

No Turning Back: Trade Policy in the Trump Era

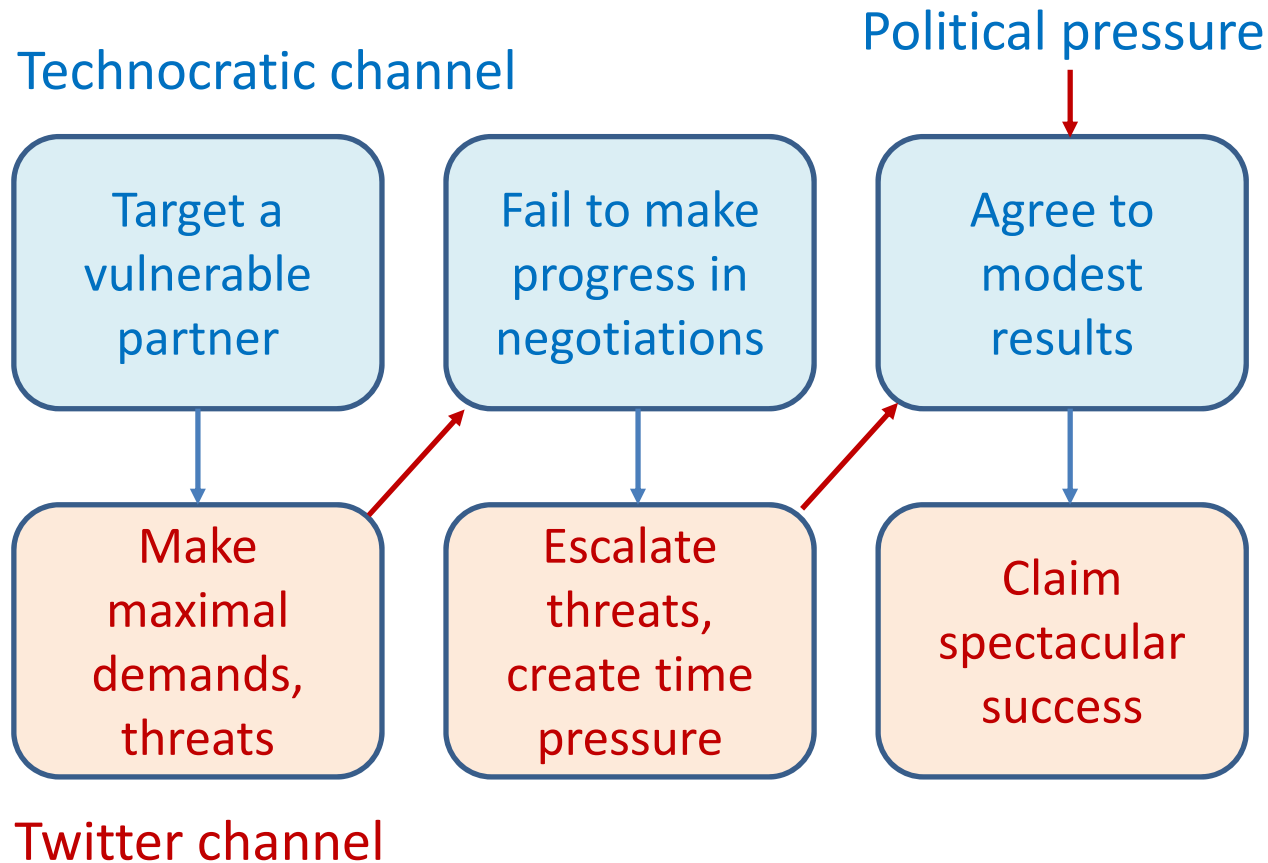
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US trade policy under Trump

- Trade wars
 - Settled, sort of: KORUS, EU
 - Likely soon: NAFTA
 - Unlikely: China
 - What next: Japan? WTO?
- Little interest in economics, mixes in politics
- Bad outcomes
 - Agreements create distortions that harm both sides
 - Partners are forced to choose “least bad” option
- Implications
 - US market will be protected, uncertain
 - Supply chains may shrink
 - Rent seeking is returning

Trump negotiating model



Equilibrium 1: Bazaar

- Transactional trade agreements
 - Mostly bilateral
 - Based on overall bargaining power, involving non-economic issues
 - Not subject to external rules
 - Renegotiated when bargaining power shifts
- Implications
 - Uncertainty, high transaction costs
 - Shorter supply chains, less trade, lower productivity
 - Less competition
 - Rent-seeking
- Game-theoretic forces
 - Difficult to shift from “bad” equilibrium due to lack of trust
 - Self-enforcement unattractive until critical mass leaves bazaar

Equilibrium 2: Zone of Rules

- Countries establish a “Zone of Rules”
 - Among members, self-enforcing, rules-based trade
 - Minimum zone: based on WTO rules
 - Ambitious zone: rigorous trade agreement
- Implications
 - Within zone: usual benefits of low barriers, predictability
 - Outside zone: usual costs of transactional agreements
 - Members of zone may act together to increase bargaining power
- Emerging institutions: TPP and RCEP tracks
- Game-theoretic forces
 - As in GATT, benefits of zone membership grow over time and lead to tipping point

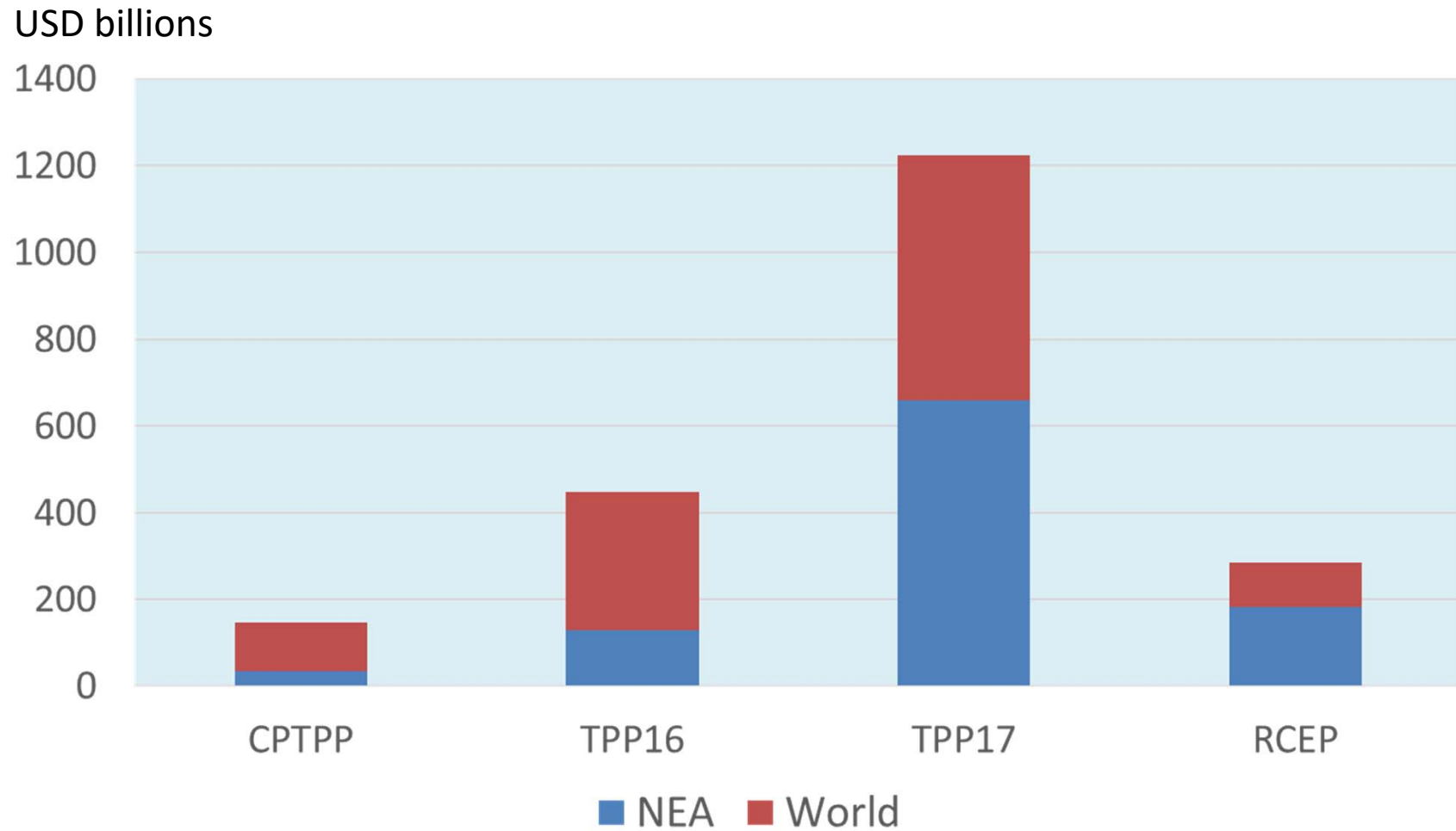
Equilibrium 3: Grand Bargain

- China
 - Neutrality of SOEs
 - Stronger TRIPs, TRIMs
 - Currency links
- Improve WTO functionality
 - Develop mechanisms to reach agreements
 - Speed up dispute resolution
- Address new issues
 - Ecommerce
 - Data localization, privacy, security
 - Immunize new products from protection
 - TISA
- Implications: big global win

Regional initiatives

- **CPTPP (2018)**
Rigorous agreement: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam
- **TPP16**
CPTPP plus Indonesia, Korea, Philippines, Taiwan, Thailand
- **TPP17**
TPP16 plus China
- **RCEP**
Large but less rigorous agreement: Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Korea, Laos, Malaysia, Myanmar, New Zealand, Philippines, Singapore, Thailand, Vietnam

NEA and rest-of-world income gains from regional initiatives, 2030



Is CJK possible?

- Share distinctive interests vs. US, Europe, India
- Similar objectives, sensitivities
 - Agriculture
 - Intellectual property (volume)
 - Industrial policy
 - Investment rules (CJK Investment Treaty)
- Differences
 - State-owned enterprises
 - Intellectual property (quality)
- Success is critical to region's influence