

RIETI-ANU-ERIA Symposium

貿易緊張の緩和に向けてーアジア太平洋地域の連携

Asia's Response to the Trade War

特別講演 / Speech

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Mari PANGESTU

Responding to the Trade War: an ASEAN perspective

Mari Pangestu

RIETI-ANU-ERIA Symposium

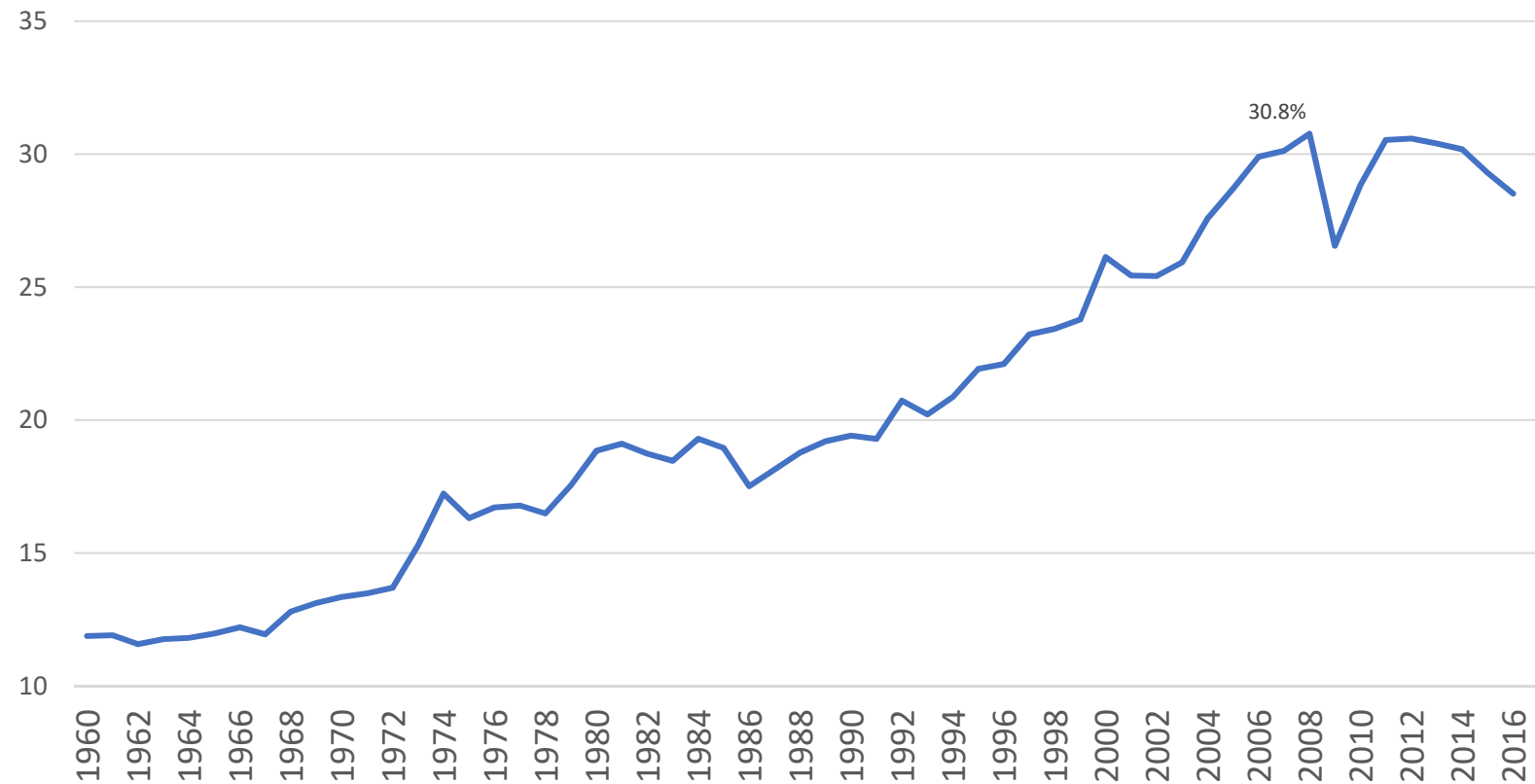
Tokyo, December 6th 2018

The Trade War Landscape

The underlying causes of the Trade War and the impact so far

The open and rules based multilateral trading system has served the world well

World Exports of goods and services (% of GDP)



- Increased competitiveness
- Increased efficiency of resources allocation
- Hundreds and millions lifted from poverty
- Asia has been one of the main beneficiaries in the last three decades

Source: UN-Comtrade, Worldbank

Challenges to openness and rise of protectionism and nationalism

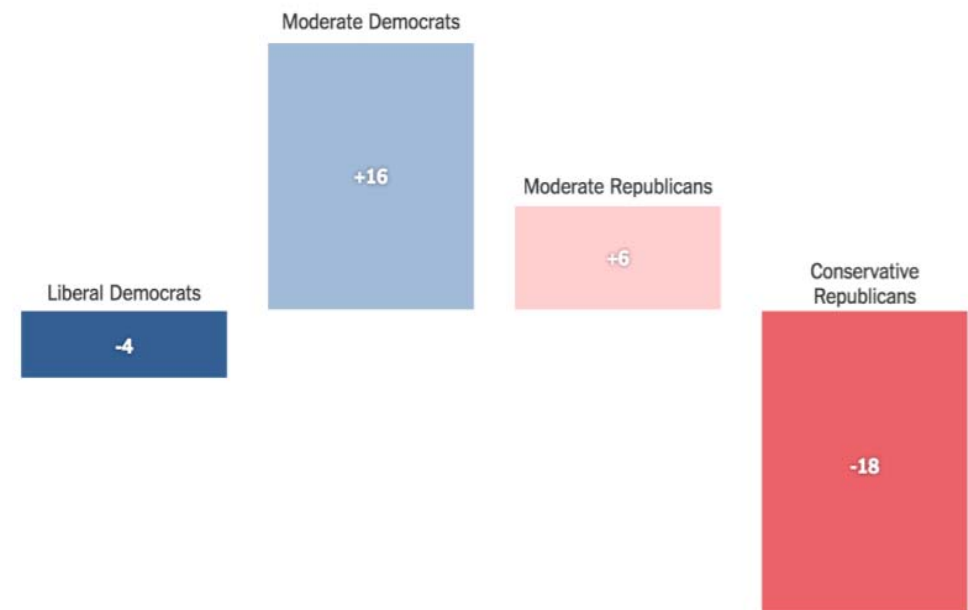
- Rise of protectionism and nationalism on the rise: Brexit, election of President Trump and other political leaders.
- Many discussion of the causes:
 - worldwide increasing inequality, combined with cultural insecurity and anti immigration sentiments, leads to the rise of populism.
 - rise of China and other emerging economies in global landscape
 - Technological disruption: changing the way we produce, trade, distribute and consume

But unaddressed problem on trade-induced inequality also played major role

- Empirical works have confirmed that exposure to Chinese imports affect negatively workers in competing sectors (see Autor-Dorn-Hanson, 2013) – obvious consequences from standard theory
- It is no surprise that those affected workers live where Trump is winning
 - **The escalation in trade war is the way Trump is speaking to his base**
- Another finding in Autor-Dorn-Hanson, 2013: Trade-Adjustment Assistance plays **negligible** role in increase in transfers
 - Issues regarding economic inequality, in part exacerbated by trade and other factors (e.g. automation) needs to be addressed first if we want Trumpism to stop hurting the global trade order

What Would The House Look Like If We Had Less Trade?

If imports from China had grown half as fast between 2002 and 2010 as they actually did, Congress probably would have fewer conservatives and liberals and more moderates, according to a new study by a group of economists.



Source: Autor, Dorn, Hanson and Majlesi. "Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure"

Second guessing what President Trump's concerns are: partly a “distorted view” of how international trade works



Donald J. Trump ✓
@realDonaldTrump

Following



When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down \$100 billion with a certain country and they get cute, don't trade anymore-we win big. It's easy!

2:50 AM - 2 Mar 2018

- trade deficits are “losses” for the US. Trump commits to do everything to reduce the deficits with US' trading partners (deglobalization, make everything in the US – Make America Great again)
- Targeting China's non market behavior (push for reforms of China and possibly rule book of WTO)
- Transactional, just want to have a better deal, renegotiate when the bargaining power shifts e.g. NAFTA to MCA, sunset clause can change)

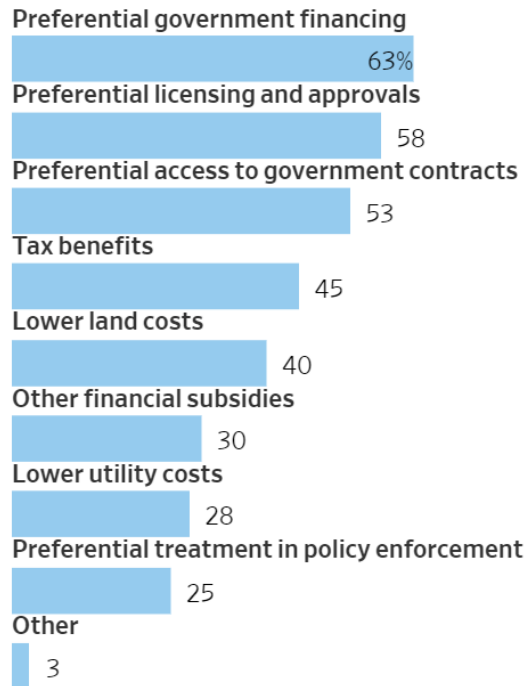
China has been the main focus, but other countries are likely to be affected as well

- Many countries are being threatened, including major EU allies. But reducing trade deficit with China main focus
- Other issues with China: rise of China and technology race, security concerns etc.
- China focus is obvious with non market references (Trilateral Trade Ministers meeting, inability to agree at APEC communique, and reference in MCA agreement)



Source: US Census Bureau

Percentage of respondents perceiving their state owned competitors as having that benefit, 2017



Source: US China Business Survey, from the Wall Street Journal

Ambiguous treatment on China's compliance of WTO rules provides background atmosphere to hostility

- In the 1994 Marrakesh declaration, WTO members agreed to a trading system based on “open, market-oriented policies.”, there are debates whether China really lives up to this commitments or whether it is because the rules do not capture the issues at hand (e.g. SOE, investment).
- US and other countries: concerns China's violation of many WTO rules, from heavily subsidized SOE to policies regarding intellectual property rights. Many private enterprises perceive that China has been playing discriminatory policies (see figure).
- The call for China's adherence to WTO rules and fairer trade practices is not unique to Trump. But addressing it by raising tariffs and escalating trade war with no obvious exit strategy is obviously not the answer

Other geopolitical factors, i.e., China's ambitious expansion of influence in regional geopolitics adds up to the US stance

- Issues of China's stance and actions on the South China Sea disputes
- China's Belt and Road project is seen as existential threat to US influence



Source: The Economist

Implications for US-China Trade Conflicts

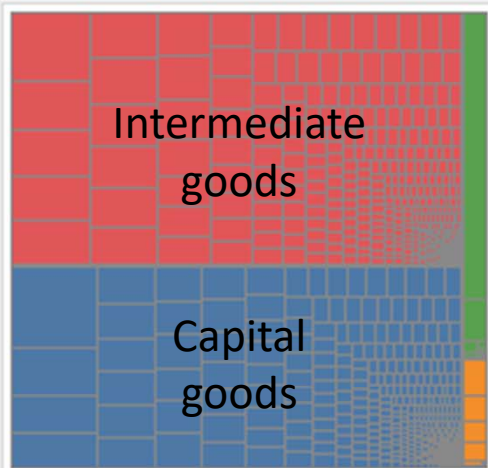
When the two largest countries are at “war” the rest of the world is affected

U.S. tariffs on Chinese goods



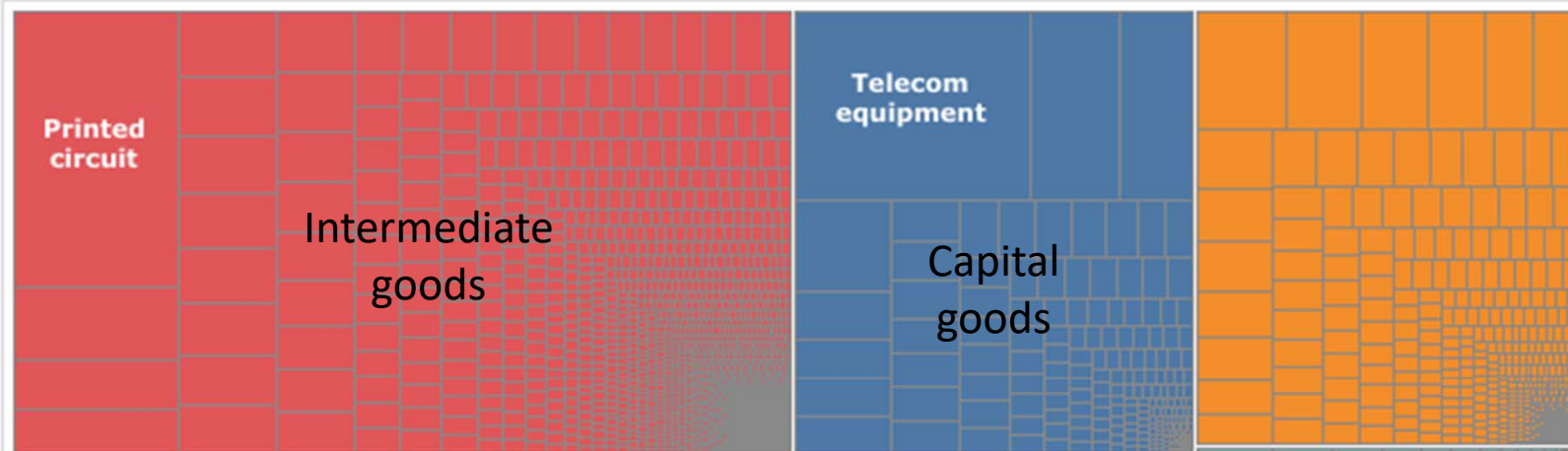
■ Capital ■ Consumer ■ Intermediate ■ Others ■ Transport equip.

Phase 1: \$50 billion

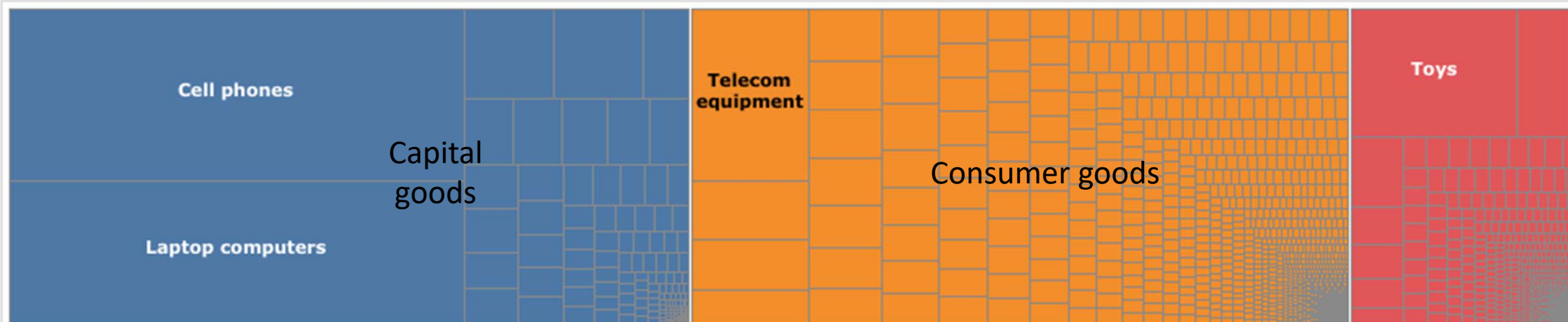


Phase 2: \$200 billion

SOURCE: Peterson Institute for International Economics



Not yet listed: \$281 billion

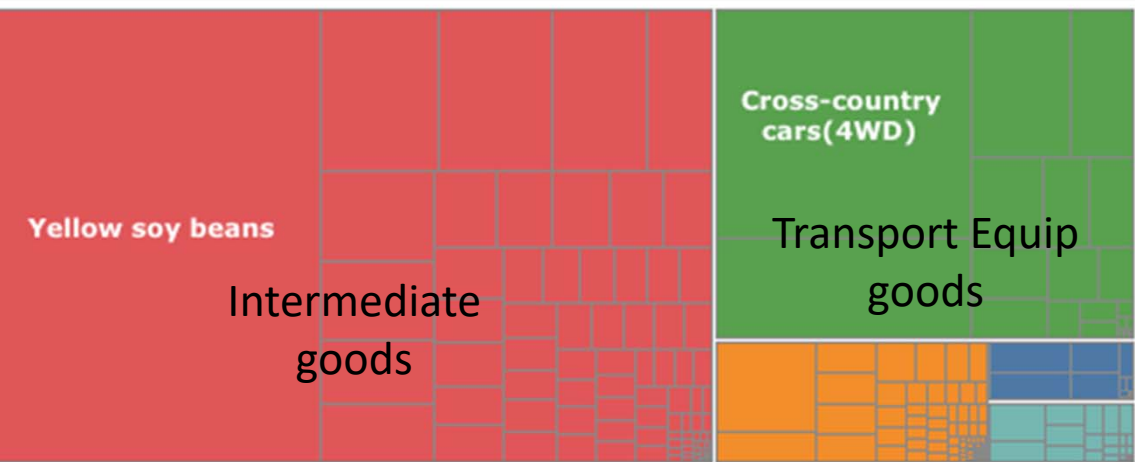


China tariffs on U.S. goods

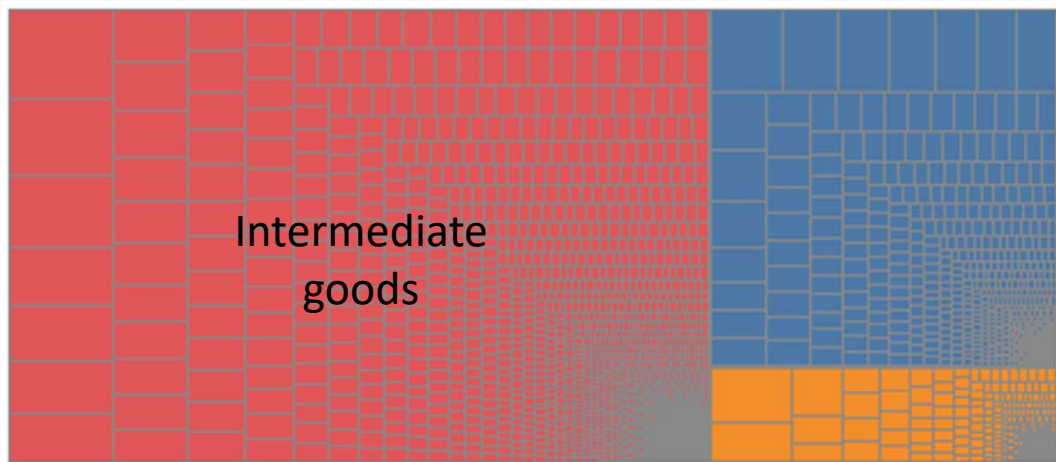


Consumer Capital Intermediate Others Transport equip.

Phase 1: \$50 billion



Phase 2: \$60 billion



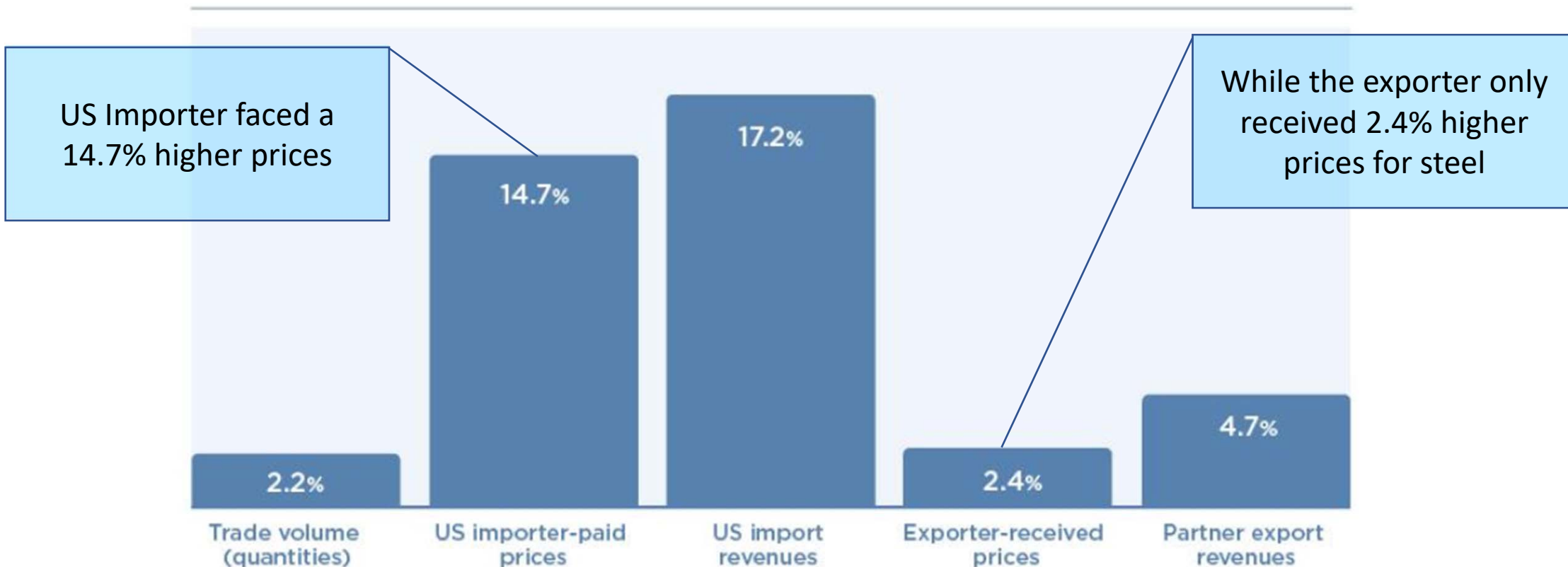
Not yet listed: \$57 billion



SOURCE: Peterson Institute for International Economics

Contrary to Trump's argument, tariffs not only hit the exporting countries but also US consumers

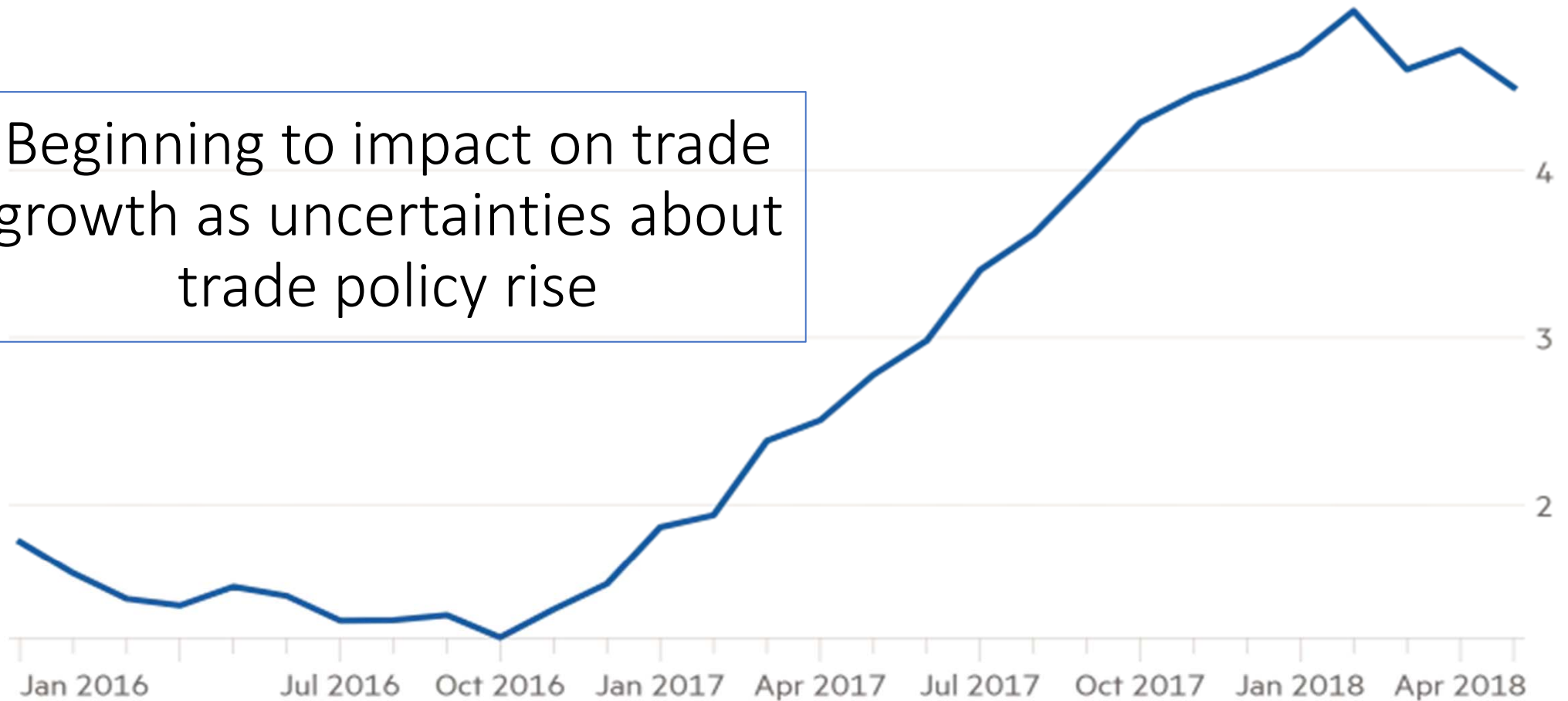
Percent change in US imports and foreign exports of steel over the six months prior to and following Trump's imposition of tariffs on March 23, 2018



World trade growth

Volume, annual % change on rolling 12-month average

Beginning to impact on trade growth as uncertainties about trade policy rise



Source: CPB

© FT

Trade war has negatively impacted the global economy

Trade war is hurting the global economy.

IMF revised its economic growth projection to 3.7, down 0.2 from the previous data.

Stock markets in the US and globally have been affected by the uncertainties in trade policy

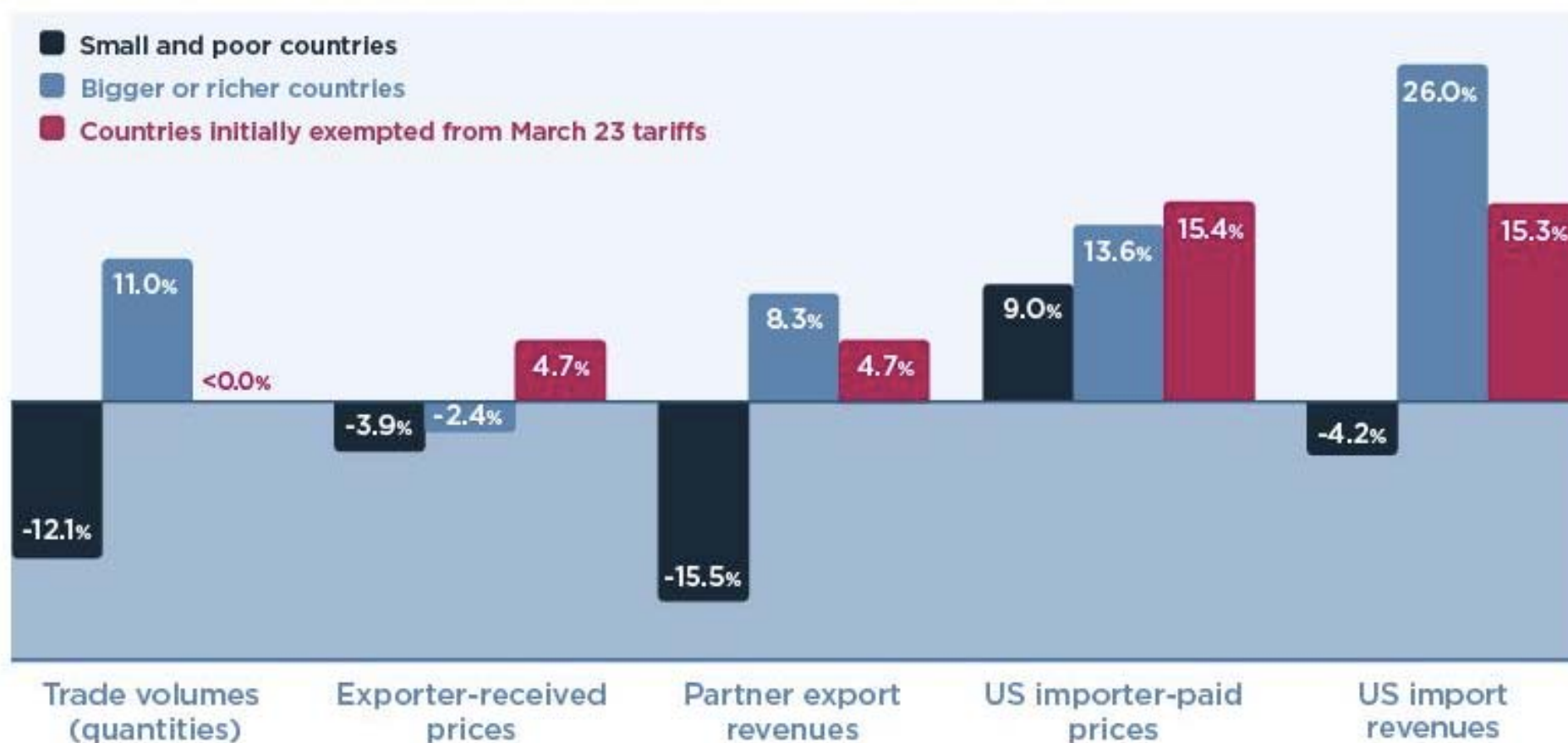
Table 1.1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

	2017	Projections		Difference from July 2018 WEO Update ¹		Difference 2018
		2018	2019	2018	2019	2018
World Output	3.7	3.7	3.7	-0.2	-0.2	-0.2
Advanced Economies	2.3	2.4	2.1	0.0	-0.1	-0.1
United States	2.2	2.9	2.5	0.0	-0.2	0.0
Euro Area	2.4	2.0	1.9	-0.2	0.0	-0.4
Germany	2.5	1.9	1.9	-0.3	-0.2	-0.6
France	2.3	1.6	1.6	-0.2	-0.1	-0.5
Italy	1.5	1.2	1.0	0.0	0.0	-0.3
Spain	3.0	2.7	2.2	-0.1	0.0	-0.1
Japan	1.7	1.1	0.9	0.1	0.0	-0.1
United Kingdom	1.7	1.4	1.5	0.0	0.0	-0.2
Canada	3.0	2.1	2.0	0.0	0.0	0.0
Other Advanced Economies ²	2.8	2.8	2.5	0.0	-0.2	0.1
Emerging Market and Developing Economies	4.7	4.7	4.7	-0.2	-0.4	-0.2
Commonwealth of Independent States	2.1	2.3	2.4	0.0	0.2	0.1
Russia	1.5	1.7	1.8	0.0	0.3	0.0
Excluding Russia	3.6	3.9	3.6	0.3	-0.1	0.4
Emerging and Developing Asia	6.5	6.5	6.3	0.0	-0.2	0.0
China	6.9	6.6	6.2	0.0	-0.2	0.0
India ³	6.7	7.3	7.4	0.0	-0.1	-0.1
ASEAN-5 ⁴	5.3	5.3	5.2	0.0	-0.1	0.0
Emerging and Developing Europe	6.0	3.8	2.0	-0.5	-1.6	-0.5
Latin America and the Caribbean	1.3	1.2	2.2	-0.4	-0.4	-0.8
Brazil	1.0	1.4	2.4	-0.4	-0.1	-0.9
Mexico	2.0	2.2	2.5	-0.1	-0.2	-0.1
Middle East, North Africa, Afghanistan, and Pakistan	2.2	2.4	2.7	-1.1	-1.2	-1.0
Saudi Arabia	-0.9	2.2	2.4	0.3	0.5	0.5
Sub-Saharan Africa	2.7	3.1	3.8	-0.3	0.0	-0.3
Nigeria	0.8	1.9	2.3	-0.2	0.0	-0.2
South Africa	1.3	0.8	1.4	-0.7	-0.3	-0.7

Part of IMF Economic Outlook Report, October 9 2018

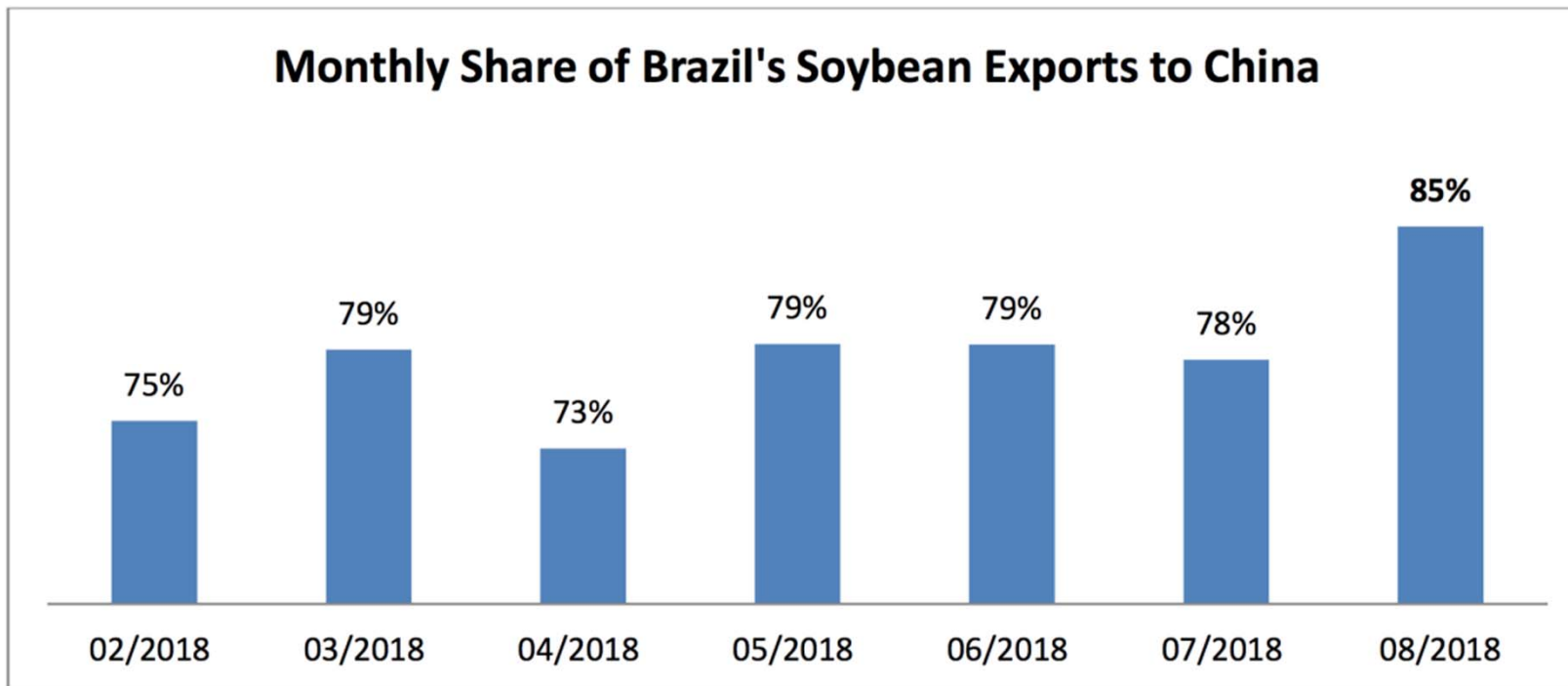
Trade volumes and prices are lower for the small and poor countries after the US trade measures on steel

a. Percent change in US imports and foreign exports of steel



Mixed effect on Business: some benefit from trade diversion and relocation of production, but longer term disruption of global value chains will be damaging

Winner? Brazil soybean exports



Source: Yahoo Finance, U.S. Department of Agriculture

Brazil's total soy area is expected to expand to a record 36.28 million hectares this season due to robust Chinese demand, according to a Reuters poll of analysts.

What should Asia's Response be?

The potential outcomes are negative and will impact on Asia's development path: **we in Asia collectively, need to continue what we can do to ensure open and rules based trade and investment regime**

At the same time manage to live in system without the US as supporter of MTS and open world economic order, but continue to find means to engage the US (and China).

A Three-Pronged Approach

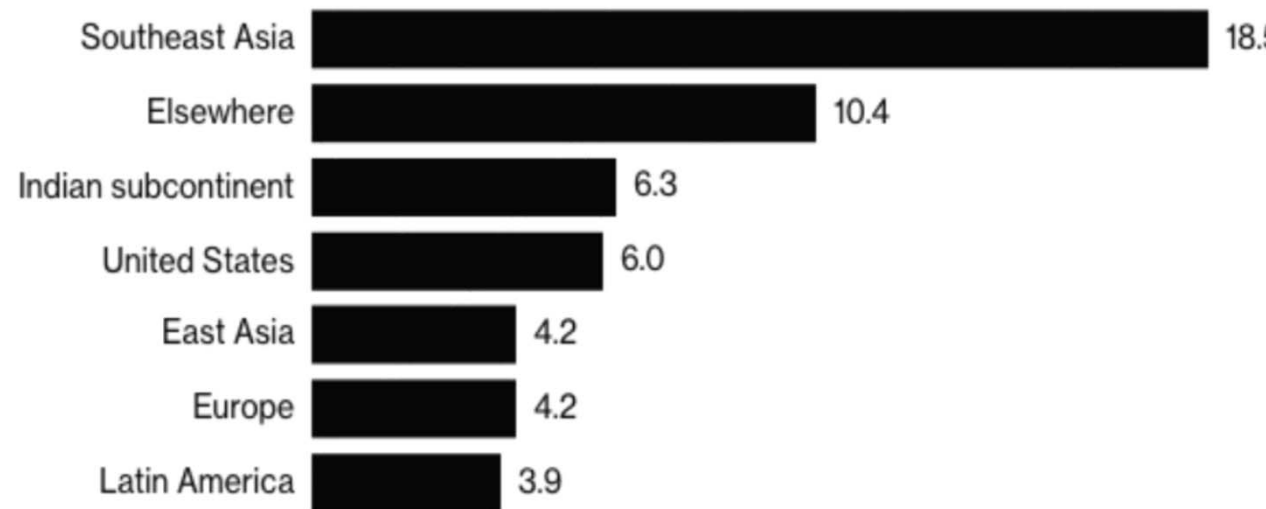
- **Unilateral reforms** still KEY
- Strengthening and building on **Regional Economic Integration** is a MUST
- UPHOLD the **Multilateral Trading System** under the WTO is NECESSARY: maintain the current rules based regime and pro active in renewing the WTO rule book.

1. Unilateral Reforms

- Structural reforms key to continued development and increased competitiveness, so attractive for any relocation of GVC due to automation and technological disruption as well as US-China trade war
- Structural reforms encompass domestic policies regarding infrastructure, human capital, trade and investment regime, and fair but flexible labor market regulations
- Unilateral reforms undertaken for own economic development, creation of jobs and livelihoods – not because “pressured” by the US (narrative important) --- Can China and others Japan? SEA? Be champions??

Open for Business

U.S. firms in China that have moved production abroad, or are considering it, have Southeast Asia at top of list



Source: AmCham China, AmCham Shanghai

Notes: Indian subcontinent includes India, Bangladesh, Pakistan, Sri Lanka. 64.6% of the more than 430 firms who responded to survey said they had no relocation plans. Survey conducted Aug. 29-Sept. 5, 2018.

Source: Bloomberg, **U.S.-China Trade Tussle Is Creating Winners in Southeast Asia**

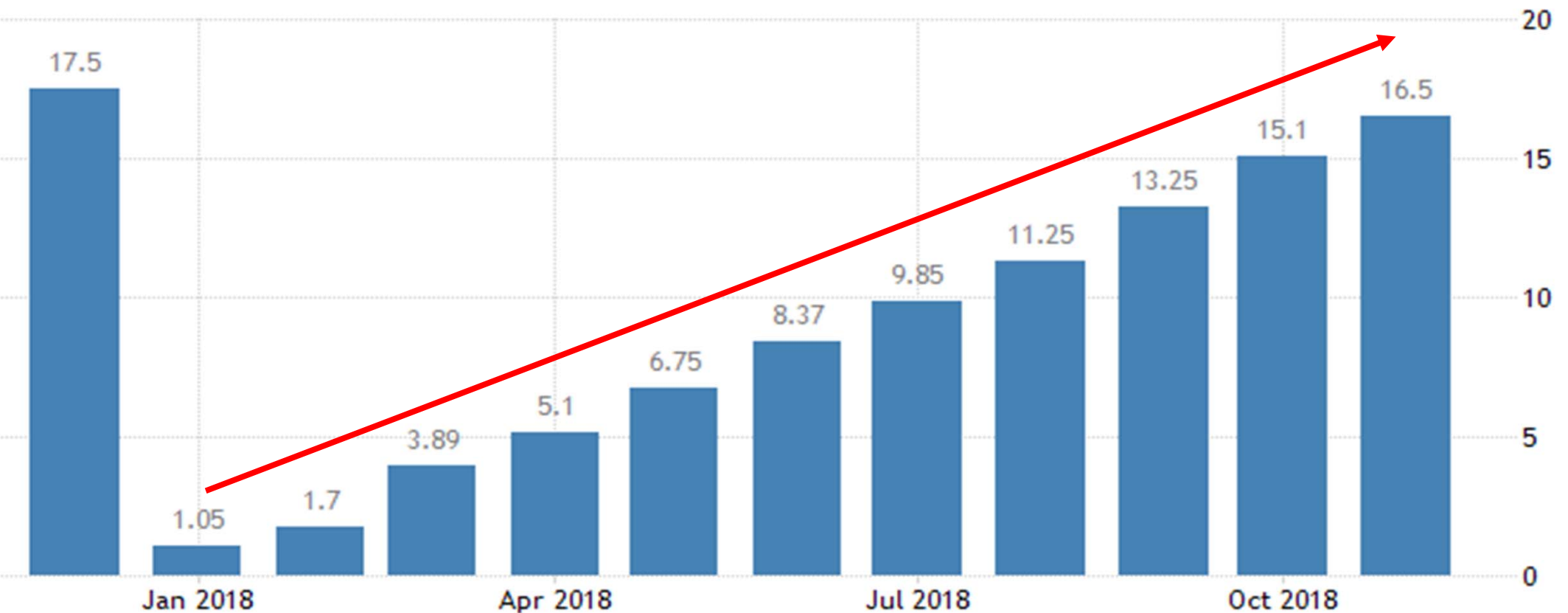
Southeast Asia is considered as top destination

COMPANY	SECTOR	NOTE
Harley Davidson Inc.	Motorcycles	Shifted part of its processes to Thailand
Panasonic Corp.	Electronics	Closed its U.S. plant in early 2017 and switched to consignment production and exports from Malaysia
Steven Madden Ltd.	Shoes and accessories	Announced that it has been shifting production of handbags to Cambodia from China
Kayamatics	Internet of Things devices	Has two Chinese factories but plans to set up production lines in Kuala Lumpur and Penang in Malaysia
Delta Electronics Inc.	Supplies power components to Apple Inc.	Offered \$2.1 billion in July to purchase a Thai affiliate to expand production
Merry Electronics Co.	Makes headphones for firms like Bose Corp.	Intends to move some of its production to Thailand from southern China

Source: Bloomberg, *Southeast Asia Has an Investment Boom, Thanks to the Trade War*

Examples of winner? Vietnam medium term investment

FDI into Vietnam has recorded a time high reaching 17.5 USD Billion in December 2017 and projected to reach 19 USD Billion in 2018. FDI pledges is largest for manufacturing (46.2% of total pledges)



SOURCE: TRADINGECONOMICS.COM | MINISTRY OF PLANNING AND INVESTMENT, VIETNAM

2. Regional

- **Regional agreements are still important. Ensures stability and predictability of trade policies in countries involved, and continued market expansion**
- Improving relations between us and ROW (e.g. Japan-China warming up, what about with India?)
- Asia's past experience with unilateral reforms have been done in the framework of regional and multilateral commitments
- Regional agreements can also address issues that are not yet addressed in the WTO

2. Regional

- Different pathways to broadening and deepening regional integration, and with major trading partners outside of region
- Deepening and broadening of ASEAN Economic Community (AEC):
 - traditional issues of market access (non tariff barriers), services and investment, and new issues related to data flows
- Completion of East Asia Regional Comprehensive Economic Partnership (RCEP): 10 ASEAN + China, Japan, Korea, Aust, NZ and India by next year
 - RCEP Leaders commit to completion by next year
 - China-Japan leaders statement also endorsed this commitment
 - Japan leadership key, played great role in CTPPP – can do the same
 - Different level of ambition compared to CPTPP, but progress and process important – Asian experience is one of ratcheting up of process

2. Regional

- CPTPP (includes North America and Latin America) Asia pacific base, implementation is key
 - Expanding members?
 - Potential “Benchmark” for other regional agreements and MTS in terms of ambition and for new issues
- China-Japan-Korea?
- Bilaterals with major trading partners e.g. EU
 - Japan-EU, Vietnam EU
 - In negotiations Indonesia-EU

2. Regional

- Within region members benefit from greater opening up and lower barriers as well as greater predictability, outside of region still have barriers and lack of certainty:
 - can exercise open regionalism principle of increasing benefits and bargaining power by expanding existing regional agreements (CPTPP, RCEP has open accession clause, cross Pacific with Pacific Alliance etc)
- Can APEC still have a role?
 - Argue that there is still a lot of value in using APEC platform to discuss new issues because not negotiating, possibly as peer pressure for reforms etc.
- Role of Capacity Building in regional cooperation and agreements – chapters in agreements on capacity building or economic and technical cooperation.
 - Belt and Road Initiative of China: how to make it effective in facilitating and driving sustainable regional economic integration
 - Recently Japan-China joint initiatives for infrastructure building in the region

3. The Grand Bargain: a Renewed Multilateral Order

- **After being the main supporter of the world economic order, the US has become its main threat.**
 - Most important benefit of WTO and open and rules based MTS is predictability and certainty and fairness of treatment to all countries (including small countries)
 - In the past US and other advanced economies prepared to do more to maintain this global public good
 - Now unilateral and bilateral approaches which violate WTO rules (“Security concerns”), undermining the WTO dispute settlement process – withholding nomination of judges on the panel (infact US benefited - US has won most of its cases)
- Prior to President Trump, there was already recognition of the need to update the WTO rule book, symptom not cause and the underlying concerns with China is a wider symptom of the issues of concern of the wider MTS
- **APEC Summit in November was also gloomy:** for the first time in history the parties failed to agree on a joint-communique
 - Underlying tensions with mentioning of “unfair trade practice”, seen as sensitive by China; explicit mention by Vice President Mr. Pence to Asian countries to “work with US so countries will not have debt problems”, referring to sensitive issues and problems related to China’s Belt and Road Initiative; and US statements never once mentioned Asia Pacific but Indo Pacific

3. The Grand Bargain: a Renewed Multilateral Order

- Recent G20 Summit provided some rays of hope: brief respite from trade war escalation but maybe temporary and still unpredictable, also not clear on exit plan from US-China trade war
- **But there is now a window of opportunity: recognition that WTO has *fallen short of its objectives* and the call for WTO reforms in G-20 Leader's Declaration (stronger than the previous Canadian initiative).**
 - Main issue – how to keep the momentum on this initiative, what and how?
 - Japan is the host of G20 Summit in June next year

3. What are the main issues in WTO Reforms?

- Strengthen current rules and processes: most importantly WTO Dispute Settlement (rules, and processes, nomination of judges), subsidies (agriculture), tariffs and non tariff, services and IPR (strengthening IPR)
- New Issues some of which are of concern in the case of trade issues with China and other countries
 - Subsidies, in particular Industrial subsidies
 - Investment issues, related to technology transfer and more broadly
 - Competition policy and level playing field, especially with regard to SOEs
 - Labor
 - Environment
 - Data flows – change in way we produce, trade and consume
 - Convergence of consumer related protection regimes (standards)
- Developing country issue:
 - Revisiting S&D treatment and treatment of developing countries.
 - Capacity building, economic and technical cooperation

3. Towards A Renewed Multilateral Order

- Plurilateral approach to ease agreement-making process. By issue by membership
Open or closed plurilateral approach, critical mass (APEC)
- **LEADERSHIP**
- Japan and EU with middle powers such as Indonesia/ASEAN, Korea, and small open like minded countries (Canada, Australia, NZ, Chile, Scandinavian countries).
 - Japan can play a crucial role as it did with CPTPP and we hope with RCEP – to show the way and help pull different members together on path of continued open and rules based trading system
- US and China have agreed to the G20 statement – implying they are willing to engage, important to keep them engaged.