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Rising Protectionism in US: Asia-Pacific's Response

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Synopsis

Asia-Pacific countries cannot influence decisions in the US, but they can pursue a three-pronged response that should enhance their resilience to possible global shocks generated by Trump's protectionist policies.

Commentary

UNITED STATES President Donald Trump has taken a radically different approach to trade than his predecessors leading to a rise in American protectionism. Trump has launched a series of unilateral moves, the most recent being increasing tariffs on steel and aluminum imports on national security grounds.

Trump has put together a team of trade hawks that have sneered at the multilateral trading system. Perhaps the most protectionist actions proposed by the team so far is the plan to impose tariffs on US\$60 billion worth of Chinese imports. More protectionist actions are likely.

Accelerating Mega FTAs

Uncertainties regarding continued access to the US market have forced Asia-Pacific countries, for whom trade is an economic lifeline, to adopt a three-pronged policy response: accelerate the signing of mega free trade agreements (mega FTAs), enhance regional connectivity, and deepen interregional economic cooperation.

Japan and Australia have taken the lead in pushing through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP or TPP11) without America. This agreement was signed on 8 March 2018 and is expected to come into effect early next year, once it is ratified by at least six of the 11 members. Although

Japan hopes to have the agreement approved by the Diet this summer, other countries may take longer. For example, Malaysia [has already announced](#) a longer timeline for ratification.

Although 22 US-supported TPP provisions have been suspended or amended, the revised CPTPP is still a gold standard agreement: it eliminates tariffs on 95 percent of merchandise trade while containing many groundbreaking rules relevant to 21st-century trade. The CPTPP offers large economic benefits even without US participation.

Using a [computable general equilibrium \(CGE\) model](#), we estimate that the net benefit of CPTPP to all its members would be 0.3 percent of their combined gross domestic product (GDP) in the medium run. All 11 CPTPP countries would benefit, albeit less than if the US were in the accord.

Several other countries may also join the CPTPP. South Korea says it is assessing the CPTPP's effect before making a decision. Indonesia and Thailand, and even Britain, have expressed interest in joining the accord. Trump said that he is open to rejoining the trade deal, but only if it involves a "better deal for the United States". This may not happen any time soon.

East Asia's RCEP & BRI

Asian countries have also accelerated negotiations for the Regional Comprehensive Economic Partnership (RCEP). Success of the CPTPP should give a boost to RCEP, and the negotiating parties are optimistic that it can be concluded later this year under Singapore's ASEAN chairmanship. To fast-track RCEP, the idea of an "RCEP minus X" formula is gaining traction.

Since RCEP is a mega free trade area (FTA) comprising mostly developing countries, it is not as transformative as the CPTPP. But its conventional free trade agenda would still confer significant benefits. Our estimates show that RCEP would generate welfare gains of \$127 billion, compared to \$35 billion from the CPTPP. Cambodia and Thailand are likely to benefit the most from RCEP.

In addition to pursuing mega FTAs, Asia-Pacific countries have stepped up efforts to enhance regional connectivity through infrastructure development. The headline-grabbing activity is China's Belt and Road Initiative (BRI), spearheaded by President Xi Jinping since 2013. The BRI aims to connect more than 70 countries across the Afro-Eurasian supercontinent via large-scale projects including railways, roads, bridges, ports, and pipelines.

Criticism of a [lack of transparency](#) and China's debt-trap diplomacy notwithstanding, the BRI is largely seen as an attractive proposition for many developing countries that are in need of investment finance.

Apart from RCEP and BRI, in 2016 ASEAN unveiled the new [Master Plan on ASEAN Connectivity](#). The plan envisions a "seamlessly and comprehensively connected and integrated ASEAN" by 2025. It includes several major region-wide infrastructure projects such as the ASEAN Highway Network.

Alternatives to BRI

There are two other connectivity proposals that can be viewed as alternatives to the BRI. India is collaborating with Japan under the Asia-Africa Growth Corridor proposal to develop maritime connectivity across Africa, India, and Southeast Asia. Australia, India, Japan, and the US are involved in another partnership, known as the Indo-Pacific Partnership. The Asia-Africa Growth Corridor and the Indo-Pacific Partnership proposals are still at the consultation stage.

The third prong of the Asia-Pacific response to rising US protectionism is the promotion of interregional economic cooperation.

On 5 March 2018, the Philippines ratified its FTA with the European Free Trade Association (EFTA). Australia and New Zealand hope to start their trade negotiations with the European Union (EU) this year, and ASEAN hopes to resume its stalled region-to-region FTA negotiations with the EU in the next few months. South Korea signed FTAs in February with a number of Central American countries. Singapore is negotiating an FTA with the Pacific Alliance.

An Evolving Regional Trade Architecture

Going forward, Asia-Pacific countries' three-pronged response to a protectionist shift in the US will most likely continue. What shape could the evolving regional trade architecture take?

Our CGE model suggests that instead of joining just one mega FTA, countries would benefit from joining both. For example, Vietnam's real GDP would increase by either 1.5 percent from the CPTPP or 3.3 percent from RCEP, but if the country joins both, its real GDP would increase by 4.2 percent.

This means that once the CPTPP is ratified, the CPTPP-only countries (Canada, Mexico, Peru, and Chile) should seek RCEP membership. Similarly, the RCEP-only countries (Cambodia, China, India, Indonesia, Laos, Myanmar, Philippines, South Korea, and Thailand) should seek CPTPP membership.

This would result in a 20-country bloc in the Asia-Pacific region with membership in both the CPTPP and the RCEP. The advantage of dual membership would be access to the Chinese and Indian markets for CPTPP members and valuable exposure to high-quality trade rules for RCEP members. Additionally, countries would not have to choose sides between the Japan- and Australia-led CPTPP and the ASEAN- and China-led RCEP.

Perhaps, ironically, President Trump has done more to promote regional and interregional cooperation in the Asia-Pacific than these countries would have done on their own.

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