



East Asia and the Future of World Trade

An Assessment of the Trump and Brexit Impacts

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Overview

- ▶ **The world trade system** – representing wider economic, political and technological developments shaping *human society*... and pointing to its future development
- ▶ **East Asia** has always been important to the world trade system... and a trade-dependent region
- ▶ **Globalisation** and *new complexities in trade*
- ▶ **Recent geopolitical developments** – disruptive impacts of Trump and Brexit in a new multipolar order
- ▶ *How will they impact on East Asia, the region's trade, and the world trade system?*
- ▶ Are they **one-off shocks** to the system or **part of a broader paradigm shift?** ... A return to a late 19th century world of greater power rivalry and tension?





Key Underlying Developments in East Asia's Trade...



Table 1.3 East Asia's Dominance of Asia's Economy and Trade

	GDP (US\$ billion, 2014)	GDP per capita (US\$, 2014)	Pop. (millions, 2014)	Exports (US\$ billion, 2014)	Imports (US\$ billion, 2014)	Trade (imports plus exports) as % GDP	World Bank 'Doing Business' Trade Assessment, 2015				
							Trading across borders rank	Time to export (days)	Cost to export (US\$ per container)	Time to import (days)	Cost to import (US\$ per container)
Southeast Asia											
Brunei	16.1	40,776	0.4	10.5	3.4	86.3	46	19	705	15	770
Cambodia	15.2	1,084	15.3	10.8	13.5	159.9	124	22	795	24	930
Indonesia	888.5	3,514	254.5	176.3	178.2	39.9	62	17	572	26	647
Laos	11.2	1,707	6.7	2.7	3.3	53.6	156	23	1,950	26	1,910
Malaysia	326.9	10,829	29.9	234.1	208.9	135.5	11	11	525	8	560
Myanmar	63.1	1,269	53.4	15.0	17.8	52.0	103	20	620	22	610
Philippines	284.6	2,843	99.1	61.8	67.1	45.3	65	15	755	15	915
Singapore	307.9	56,286	5.5	409.8	366.2	252.0	1	6	460	4	440
Thailand	373.8	5,560	67.7	227.6	228.0	121.9	36	14	595	13	760
Vietnam	171.4	2,052	90.7	150.5	149.3	174.9	75	21	610	21	600
total	2,458.7		623.2	1,299.1	1,235.7	103.1					
% of Asia total	10.9		15.5	20.8	20.5						
Northeast Asia											
China	10,360.1	7,594	1,364.3	2,342.7	1,960.3	41.5	98	21	823	24	800
Japan	4,601.5	36,194	127.1	683.8	822.3	32.7	20	11	829	11	1,021
South Korea	1,410.4	27,971	50.4	572.7	525.5	77.9	3	8	670	7	695
North Korea	15.5	583	25.0	3.2	4.4	49.0					
Hong Kong SAR	290.9	40,169	7.2	524.1	520.6	359.1	2	6	590	5	565
Macao SAR	51.8	96,444	0.6	1.2	11.4	24.3					
Mongolia	11.5	4,170	2.9	5.8	5.2	95.7	173	44	2,745	45	2,950
Taiwan	529.6	22,083	23.4	318.0	268.5	110.7	32	10	655	10	720
total	17,271.3		1,600.9	4,451.5	4,118.2	49.6					
% of Asia total	76.3		39.9	71.2	68.5						
EAST ASIA total	19,729.7		2,224.1	5,750.6	5,353.9	56.3					
% of Asia total	87.1		55.4	92.0	89.0						
South Asia											
Bangladesh	150.0	1,096	159.1	30.4	42.2	48.4	140	28	1,281	34	1,515
Bhutan	1.8	2,379	0.8	0.6	0.8	77.7	165	38	2,230	37	2,330
India	2,066.9	1,630	1,295.3	317.4	460.4	37.6	126	17	1,332	21	1,462
Nepal	19.3	698	28.2	1.0	7.6	44.6	171	40	2,545	39	2,650
Pakistan	246.9	1,333	185.0	24.7	47.6	29.3	108	21	765	18	1,004
Sri Lanka	67.2	3,631	20.6	11.2	19.7	50.0	69	16	560	13	690
total	2,552.1		1,689.0	385.3	578.3	37.8					
% of Asia total	11.3		42.1	6.2	9.6						
Central Asia											
Afghanistan	20.3	666	31.6	0.5	7.8	40.9	184	86	5,045	91	5,680
Kazakhstan	231.9	12,276	17.3	78.2	41.2	51.5	185	79	5,285	67	5,265
Kyrgyzstan	7.2	1,269	5.8	1.5	5.5	97.2	183	63	4,760	73	6,000
Tajikistan	8.5	1,099	8.3	1.2	4.2	63.5	188	71	9,050	70	10,650
Turkmenistan	41.9	9,031	5.3	17.5	10.3	66.3					
Uzbekistan	56.8	2,037	30.7	13.3	13.9	47.9	189	54	5,090	104	6,452
total	366.6		99.0	112.2	82.9	53.2					
% of Asia total	1.6		2.5	1.8	1.4						
Asia total	22,648.4		4,012.1	6,248.1	6,015.1	54.1					
% of world total	29.1		55.3	32.8	31.6						

Sources: International Monetary Fund and World Bank databases, World Bank (2015a)

Notes: Time to export/import refers to document preparation, customs clearance and technical control, port and terminal handling, and inland transport and handling. Cost to export/import refers to transportation costs per 20-foot container without paying bribes or tariffs.



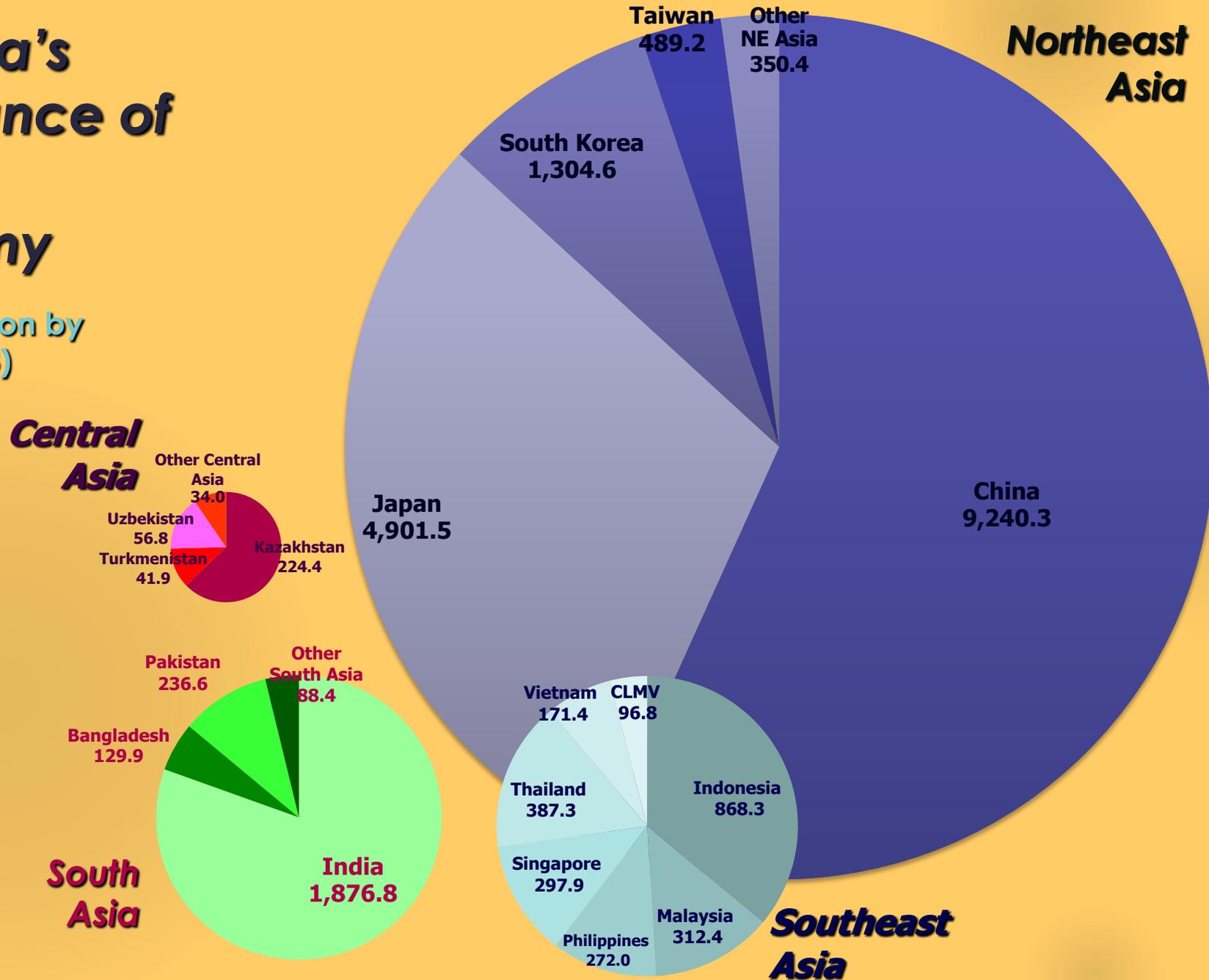
1) East Asia remains dominant in Asia's economy and trade...

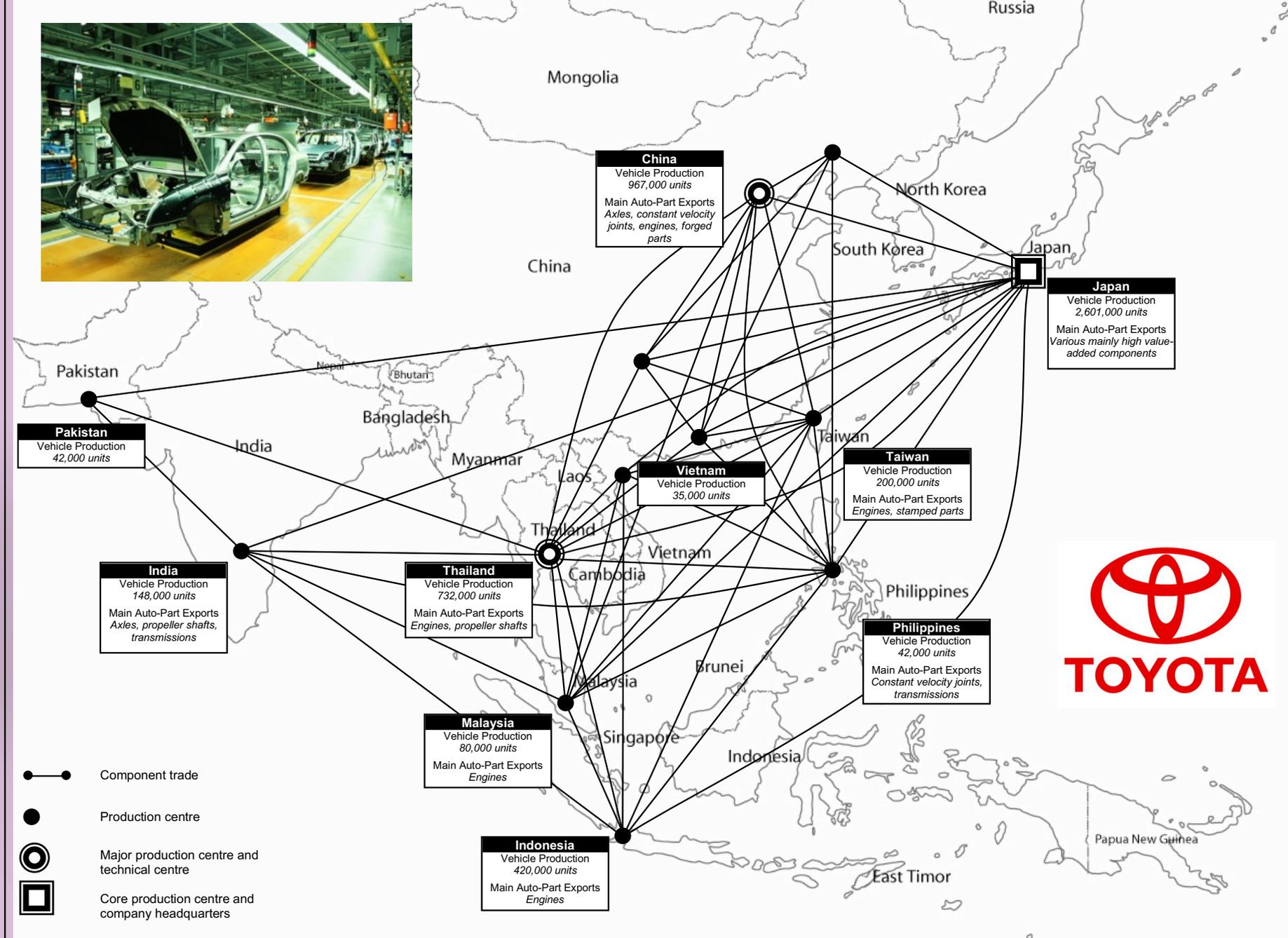
... and within East Asia, the **Northeast Asian economies** of China, Japan and South Korea are dominant

Table left shows the profile of Asia's economy and trade

East Asia's dominance of Asia's economy

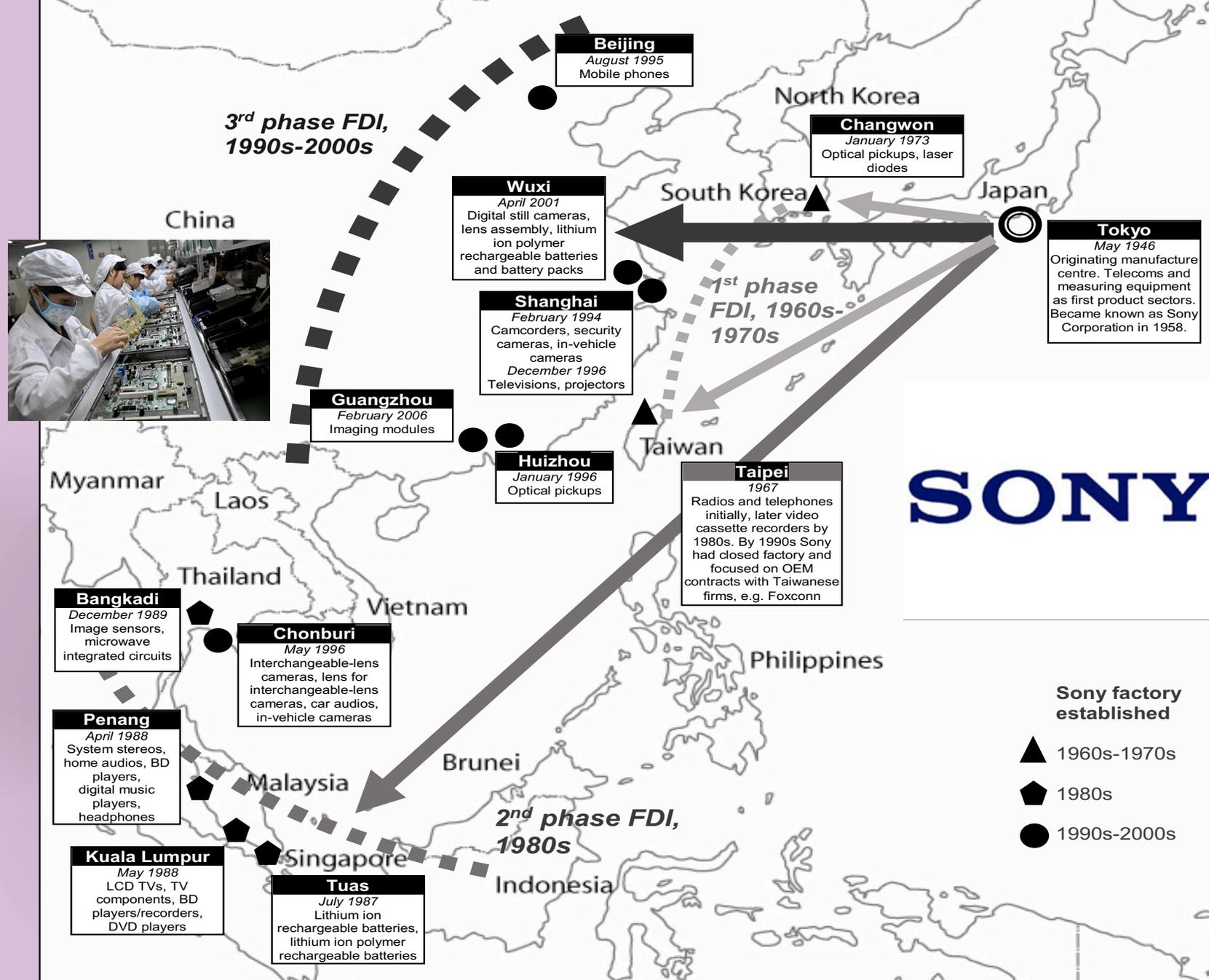
GDP (US\$ billion by country, 2013)





2) Trade has become more transnationalised
 – the growth of production networks and supply chains...
Nowhere else is this more evident than in East Asia

Figure left shows how Toyota makes cars. Trade of parts and components within its regional production network



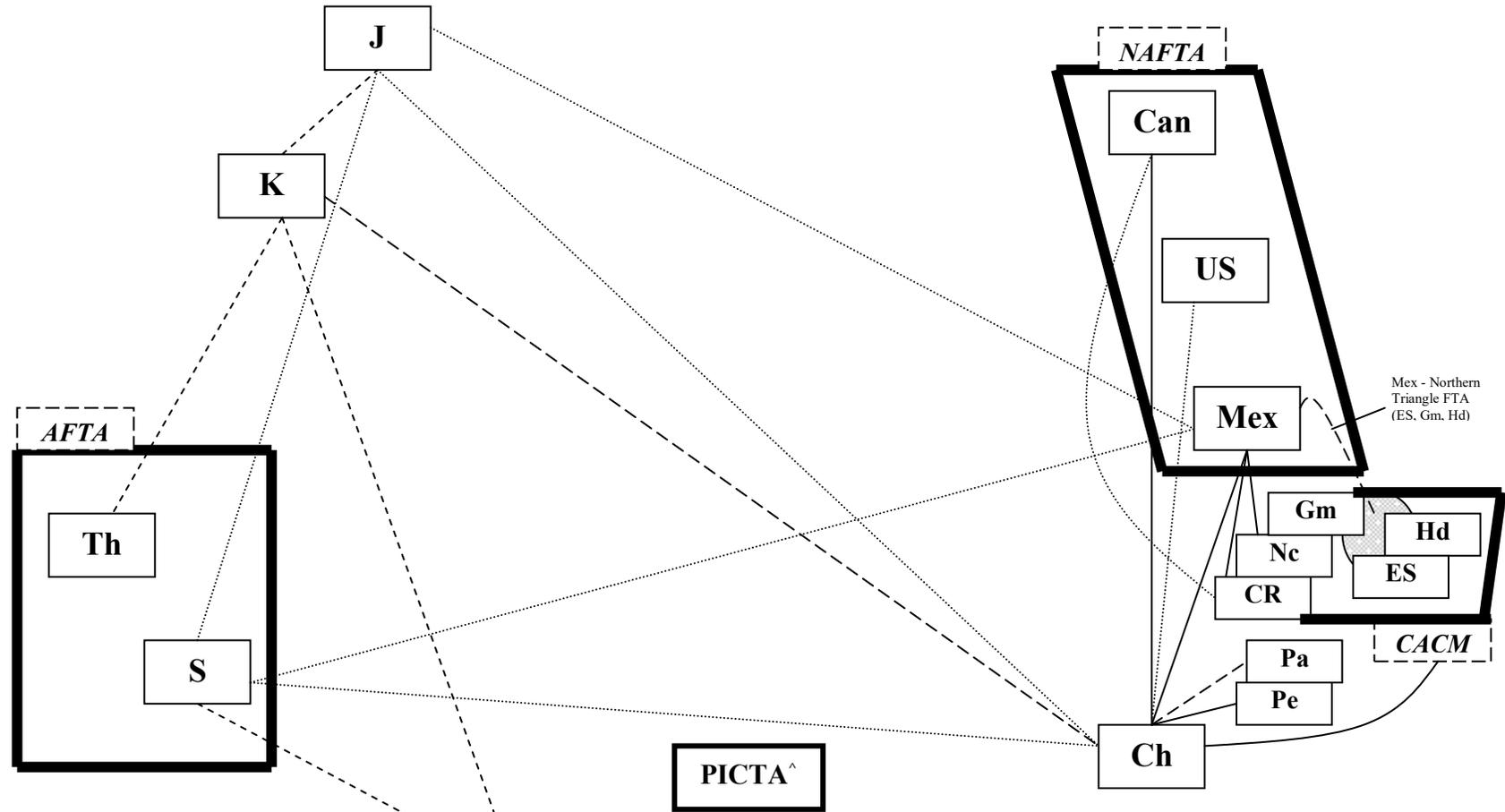
3) 'Factory Asia' links between trade and transnational production have helped regionalise trade in East Asia

Figure left shows the evolution of Sony's regional production operations since the 1960s

But much of Factory Asia's *final end products* are exported to Europe and North America

Figure 2.1 Sony's Expanding Major Manufacturing Operations in East Asia

Figure 6.2 Asia-Pacific FTA Projects (by end of 1999)



Note: ^ PICTA (Pacific Island Countries Trade Agreement) involves the 14 Pacific Island Countries. PICTA has been afforded relatively less RFTA box 'boldness' due to the fact it was only proposed in October of this year.

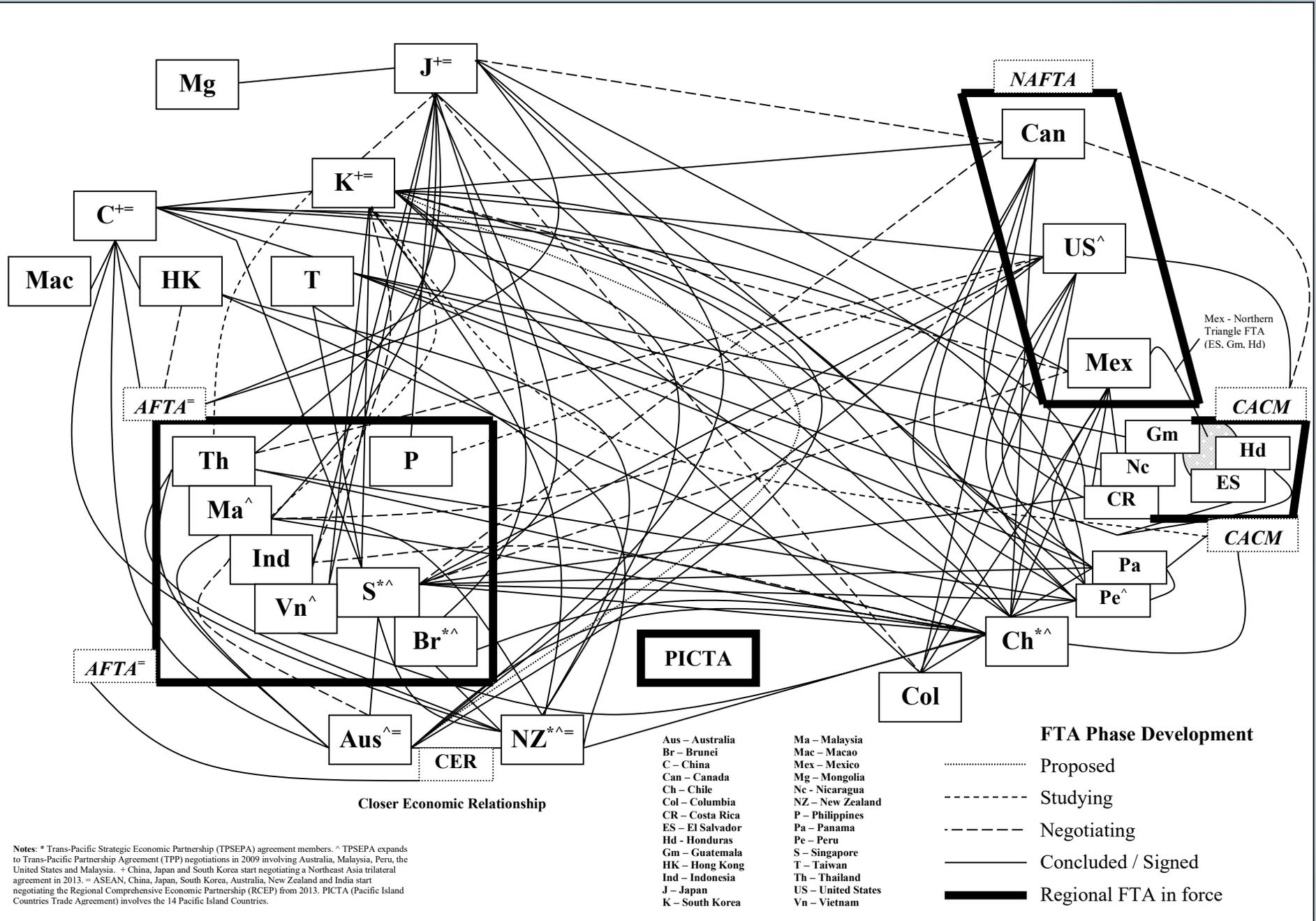
- | | | |
|------------------|--------------------|---|
| Aus – Australia | Mex – Mexico | FTA Phase Development
..... Proposed
----- Studying
-.-.-.- Negotiating
_____ Concluded / Signed
———— Regional FTA |
| Can – Canada | Nc – Nicaragua | |
| Ch – Chile | NZ – New Zealand | |
| CR – Costa Rica | Pa – Panama | |
| ES – El Salvador | Pe – Peru | |
| Gm – Guatemala | S – Singapore | |
| Hd – Honduras | Th – Thailand | |
| J – Japan | US – United States | |
| K – South Korea | | |

4) Free trade agreements (FTAs) have come to shape the political economy contours of East Asia's trade

Part of a wider global trend of FTA growth...

Figure left shows the first emergence of FTAs in the region in the late 1990s...

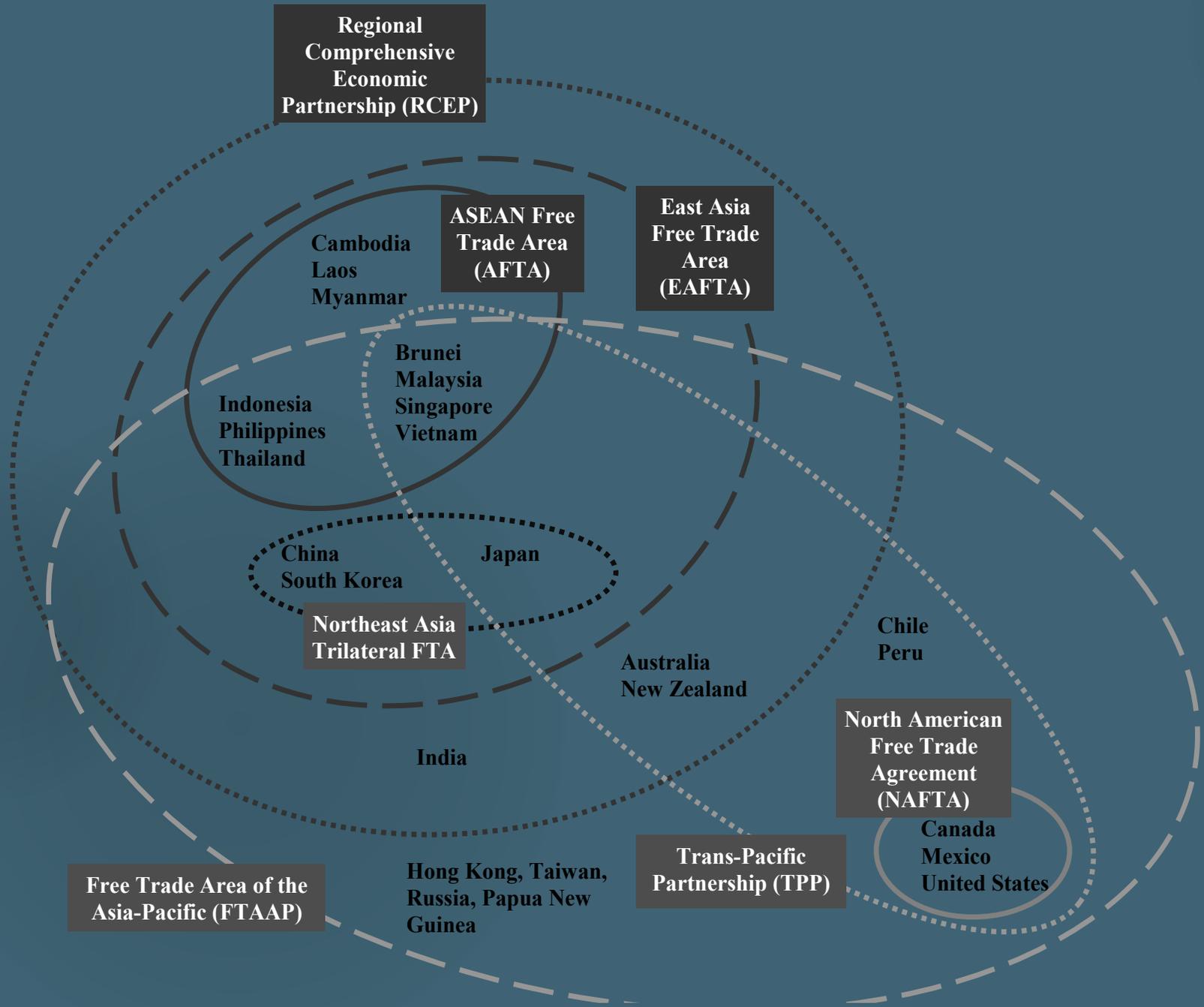
Figure 6.5 Asia-Pacific FTA Projects (by end of 2015)



4) East Asia's FTA links are mostly bound up within an **Asia-Pacific bilateral lattice pattern** of trade relations

Attempts to 'rationalise' this pattern into regional FTAs...

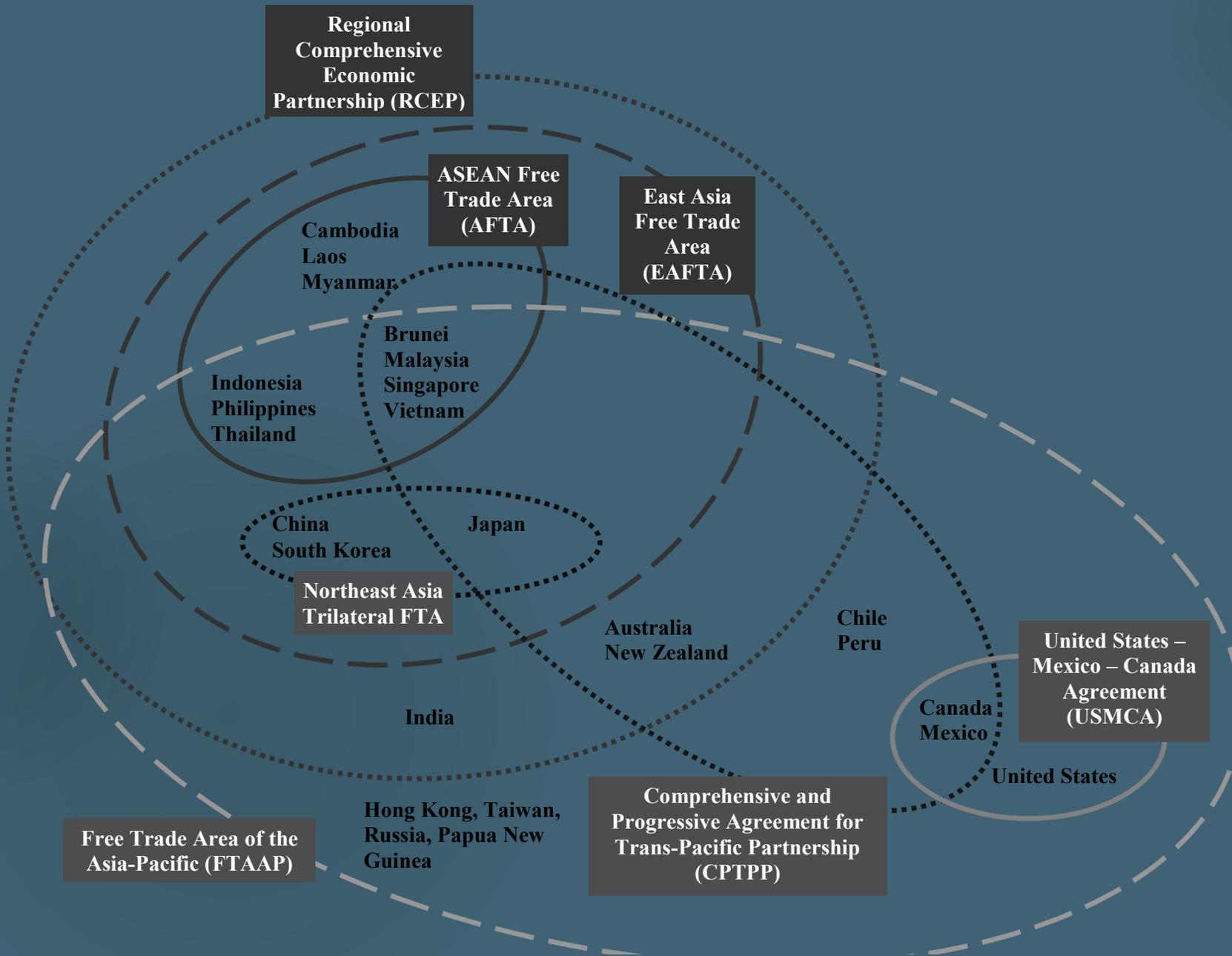
Figure left shows the Asia-Pacific FTA map by the mid-2010s



4) Regional FTA map in East Asia and the Asia-Pacific a few years back...

AFTA has been in place since 1993... ASEAN Economic Community (AEC) superseding this largely

FTAAP and EAFTA are dormant projects...



4) And now... *Can you spot the differences?...*

CPTPP has been negotiated – replacing the TPP – and is awaiting ratification

RCEP and **Northeast Asia Trilateral FTA** are still in negotiation

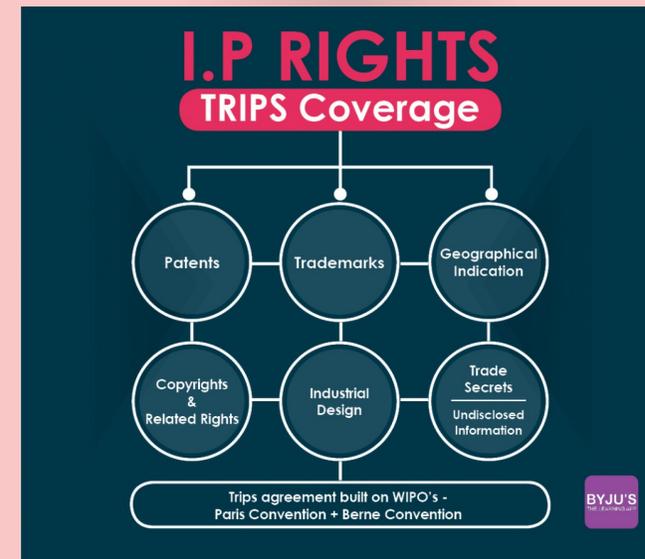
NAFTA is being superseded by the newly negotiated **USMCA**

5) The *trade agenda* is changing...

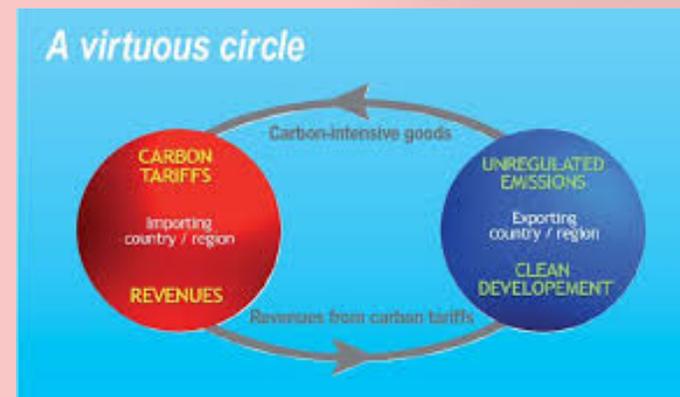
a) Trading firms are now far more concerned about **commercial regulations** (e.g. rules of origin, IPR, technical standards) *than tariffs*... see FTA texts

b) Trade *issue-linkage* with **climate change and other environmental issues** is getting stronger and discussed increasingly in *regional and global governance circles*

c) A reversion to **defensive trade nationalism**... exemplified by both the *Brexit* vote outcome and *Trump*...



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Trump's Trade Nationalism

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Motives and interests

- ▶ Reducing long-standing *US trade deficits*, especially with East Asian nations perceived as guilty of 'unfair trade'
- ▶ Trade *unilateralism* over multilateralism
- ▶ Protectionism will address '*trade imbalances*', and thereby bring jobs and prosperity back to the United States

Outcomes for East Asia

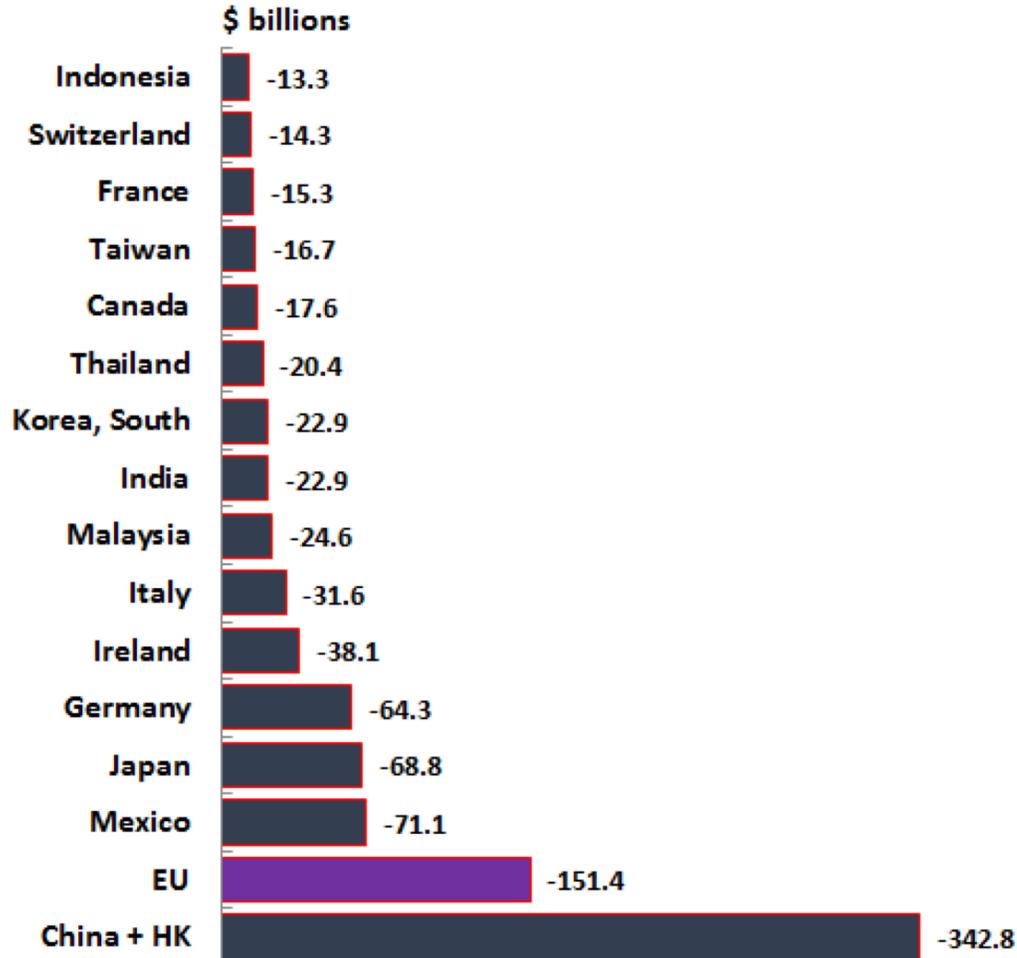
- ▶ *Escalating trade conflicts* with China, also with Japan and others... rising US import tariffs on Asian exports
- ▶ *Withdrawal from TPP* and re-negotiation of terms in existing bilateral FTAs that *further* favour the US
- ▶ *Destabilised world trade order* through uncertainty effects and rising transaction costs of trade due to protectionism
- ▶ China and/or Japan to fill the vacuum in *Asia-Pacific trade leadership* due to the US withdrawal into itself?



US trade deficits in 2017...

Out of Whack US Trade:

Trade Deficits with top US trade partners, 2017



Source: US Dept. of Commerce

WOLFSTREET.com

One-sided deal? U.S.-China trade in 2017

China runs up huge surpluses in tech, manufacturing

U.S. deficits with China, in billions



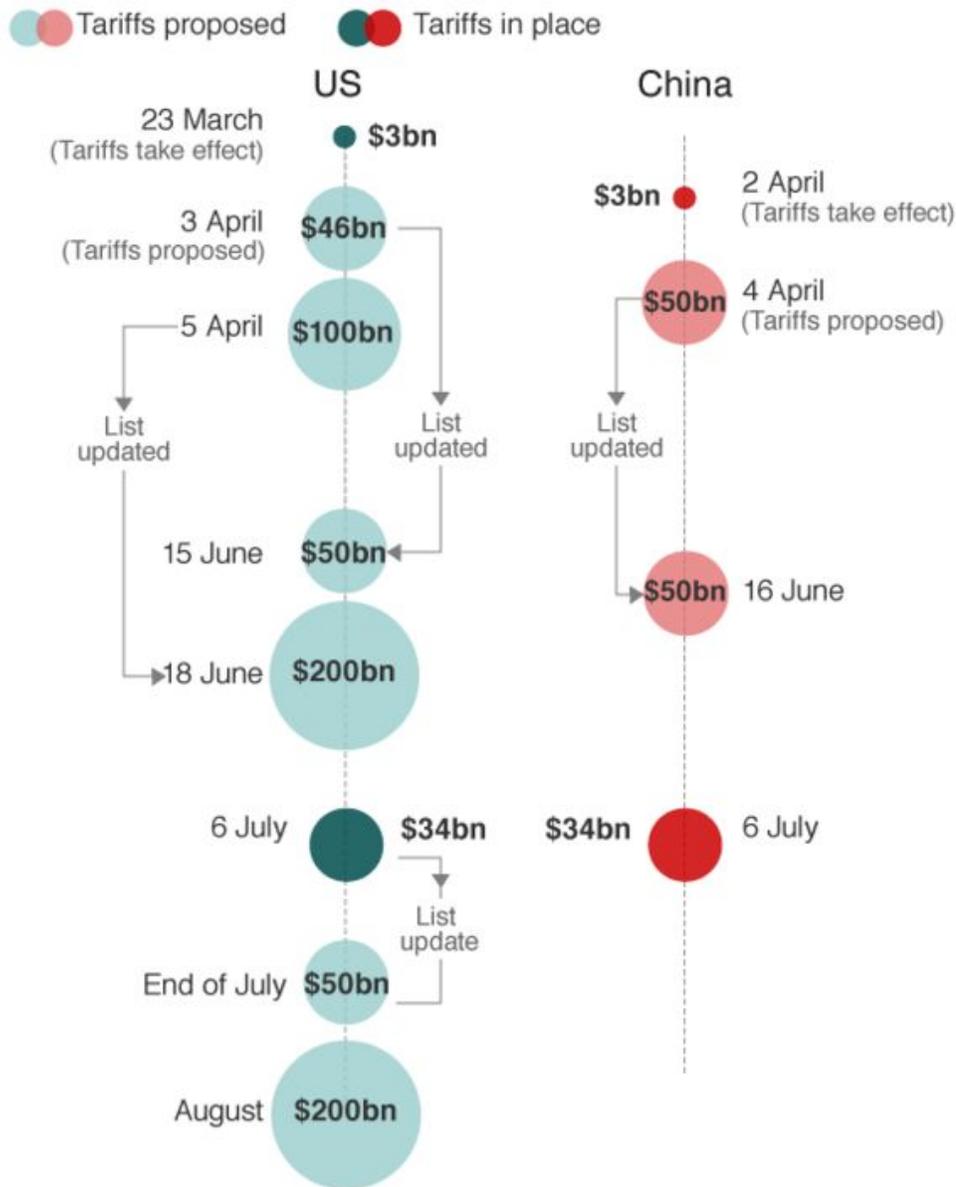
U.S. goods deficit with China in 2017: \$375.2 billion

U.S. surpluses with China, in billions



Source: U.S. Census

How the tariffs battle has escalated this year



Note: Data as of 11 July 2018

Source: Peterson Institute for International Economics, BBC research



The escalating trade war between the US and China...

The US is also applying high tariffs on Japanese autos and steel imports...



Brexit's Trade Nationalism

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Motives and interests

- ▶ For Brexiteers, reclaiming *trade policy independence* from the EU, become an independent trading nation
- ▶ Reposition the UK as '*Global Britain*' by negotiating a large number of FTAs worldwide (which it already has as an EU member state)
- ▶ Brexit's historic parallels with Britain's 1890s '*splendid isolation*' doctrine of withdrawing from European affairs



Outcomes for East Asia

- ▶ Japan's invitation to Britain to join the CPTPP! Britain's 'All of Asia' policy, and looking for Asia bilateral FTA partners
- ▶ EU is losing its most globally connected member state with strong commercial ties with East Asia... This will create a sizeable gap in EU – East Asia trade relations
- ▶ Creating *further uncertainty* in the world trade order, thus potential risks for East Asia's trade-dependent nations

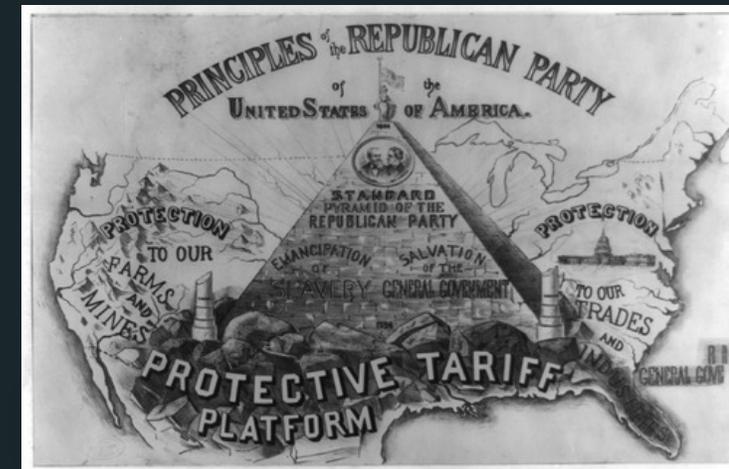
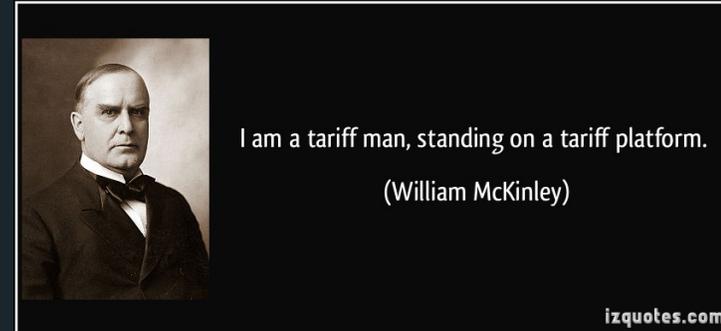


Back to the Late 19th Century?

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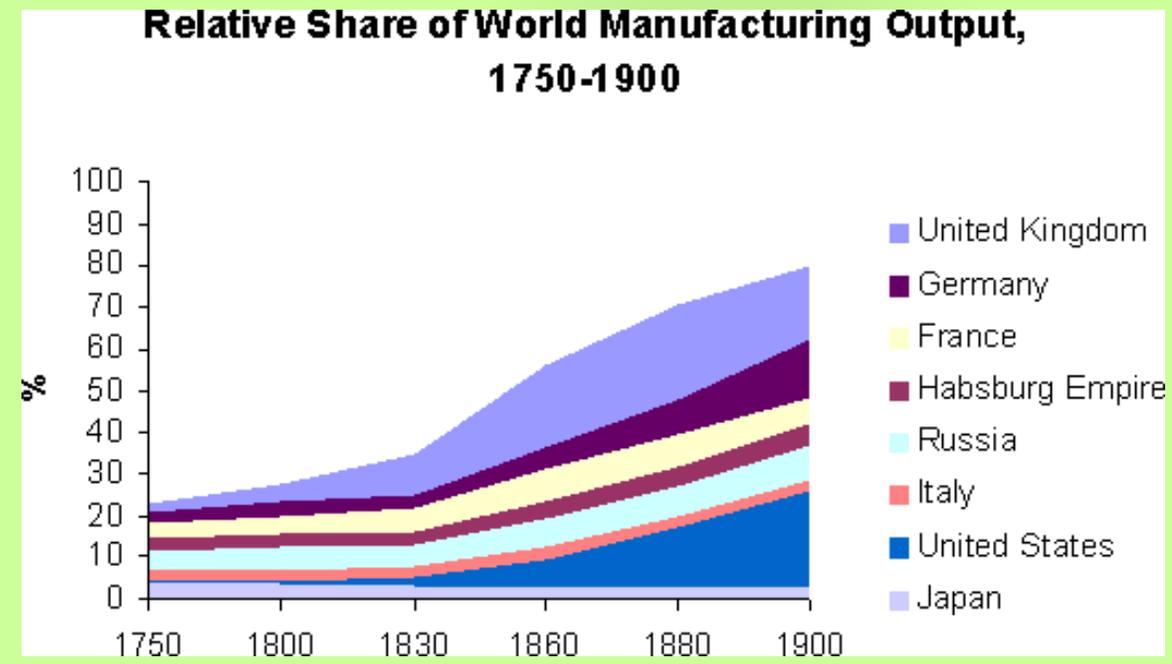
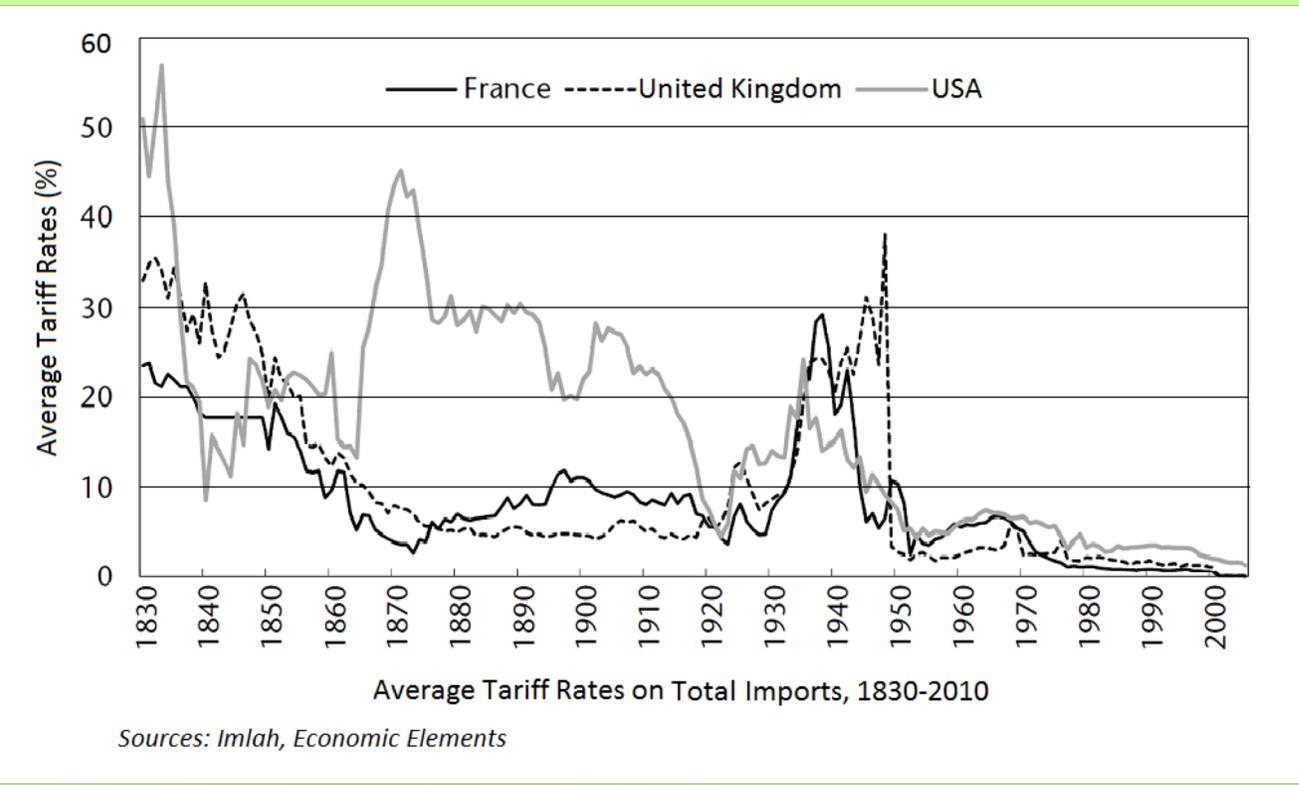
United States during this period...

- Maintained a *protectionist trade policy* on industrial goods in late 19th to early 20th century
- In 1890, *President William McKinley* raised the average tariff rate to 50 percent
- Its trading partners frequently complained about the US' *disregard for intellectual property rights* and other *'unfair trade' practices*
- A *rising economic superpower* reluctant to take on international responsibilities befitting its geoeconomic size and weight
- In addition, the US *avoided diplomatic alliances* that obligated reciprocal behaviour



The United States in the late 19th century...

A fast rising economic superpower adopting strong trade protectionism to support its strategic industries while also pursuing other forms of economic nationalism... Sound familiar?

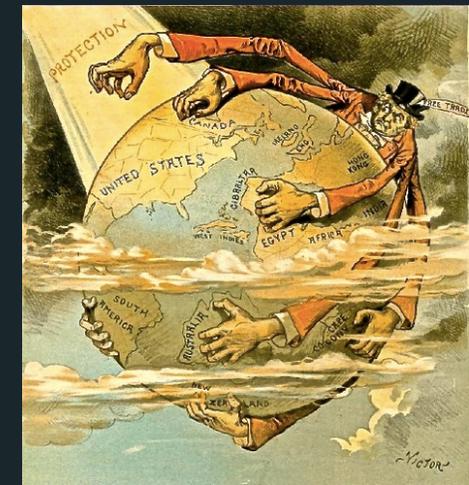


Back to the Late 19th Century?

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Britain during this period...

- Champion of *free trade* and *economic liberalism*, when many others were practicing mercantilism after 'Long Depression' of 1870s and 1880s
- BUT... adopted a '**splendid isolation**' diplomacy doctrine of withdrawing from European affairs
- Avoided alliance-making with major European powers, and other great powers
- Turned instead to its empire and global-oriented trade relations... imposed '**free trade imperialism**'
- Britain had also signed numerous *bilateral trade agreements* with various countries by 1890s
- *Growing geopolitical tensions* eventually led Britain to start forming alliances in 1900s, inc. Japan...



Impact on East Asia, and Trade?

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- ▶ Brexit and Trump – both part of a current trend in geopolitics *similar to the late 19th century world*:
 - structural shifts and growing geopolitical tensions within a new multipolar order
 - defensive nationalism after a prolonged recession and push back against (proto-) globalisation
 - growth of bilateral trade alliances but also mounting trade protectionism among most major powers
- ▶ Events and developments soon following this period ended in a **major global conflict**... *the need to avoid history repeating itself*
- ▶ Economic interdependence woven by *functionally integrated trade and transnational business* helps avert serious conflict? *Mutually assured production...*

