

Era of Bilateralism is Back?: Trump's Trade Policy and Asian Regionalism

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The Trump administration's trade policy has damaged the competitive development of regional integration in Asia and the Pacific, a key driver for the market expansion in the region during the last decade. Since 2010, triggered by the launch of the Trans-Pacific Partnership (TPP) negotiations, the focus of FTA negotiations have shifted from bilateral to multilateral trade agreements. This is primarily due to a competition over rules and norms of regional integration between the largest and second largest economies in the world, the United States and China. The decision of the third largest economy, Japan, to promote integration maintained a key position in defining the trend in this power game, as its interest and subsequent participation in the TPP triggered other regional integration frameworks. As a result, Southeast Asia (ASEAN Economic Community, AEC), Northeast Asia (Japan-China-ROK FTA), East Asia (Regional Comprehensive Economic Partnership, RCEP), and the Asia-Pacific (TPP) emerged, forming different contents, rules, and members, respectively.

A key element in these regional integration frameworks is multilateralism. Politically, small and medium-sized countries can reflect their own interests in cooperation as even a hegemon finds it necessary to take a coalition-building approach, instrumental in distributing benefits to these states in these fora. Economically, regional integration leads to the expansion of countries that are the subject of cumulative origin, which have the benefits of increasing the number of goods for which no tariff is applied, simplifying the rules for that purpose, and ultimately contributing to an expansion in exports.

President Trump's trade policy, however, symbolises the return of bilateralism. "The era of bilateralism is over" is a phrase which the then Japanese Ministry of International Trade and Industry (MITI) announced in the late 1990s after Japan and the United States had finally overcome their trade disputes over the numerical targets of market-access for American automobiles, auto-parts and semiconductors into Japanese markets. Yet, the key agenda in the newly-established US-Japan high-level economic dialogue includes their bilateral FTA, and there are Japanese fears that it would be pressured to make more concessions in agricultural liberalisation than it promised to offer in the TPP negotiations. The Japanese resistance to bilateral FTA 'renegotiation' will not likely last long since Japan will need to rely more profoundly on the US defence capability in the face of North Korea as an imminent threat. Akira Amari, former minister in charge of the TPP negotiations, recently admitted that the results of trade negotiations would be highly affected by the defence and security ties with the allies, implying the Japanese disadvantage in the bilateral negotiations with the United States.

Facing competition with China, the United States under the President Barack Obama used to engage in the possible formation of a de facto trade agreement among the United States, Japan and EU through the potential establishments of the TPP and the Transatlantic Trade and Investment Partnership (TTIP), while the EU-Japan FTA negotiations were progressing. The EU-Japan FTA is the only side of the triangle standing while the Trump administration continues to refuse to commit itself to multilateral trading arrangements, including the TTIP and TPP. As a result, Japan stepped-up the momentum to conclude negotiations on the EU-Japan FTA with a hope to potentially expand into European markets of its globally competitive automobiles and automobile parts. While the TPP failed to sufficiently open the US market to Japan's automobile sectors, the EU has been more forthcoming to open this market, notwithstanding strong opposition from Italy, France and even Germany — key automobile producing states in Europe. In return, the EU asks for greater concessions on the part of Japan in the field of agriculture, which the *norin-zoku* (the 'agricultural tribe' of the ruling party in Japan) strongly opposes as they were infuriated by the level of agricultural liberalisation which Japan promised to offer in the TPP. The resulting deadlock, however, casts doubt on the early conclusion of the FTA.

It is argued that the Trump administration's withdrawal from multilateral regional integration frameworks, such as the TPP and TTIP, may open up space for China to take the lead in an effort to promote RCEP, while increasing its economic and geopolitical influence in the region. Yet, whether RCEP can serve as a rule-setter in the Asia-Pacific region in lieu of the TPP is dubious. China's commitment to the RCEP is strongly oriented toward developing countries and favours more exemptions in the form of tariff elimination duties, with few deregulation requirements and consequently few reforms required of domestic economic systems. RCEP's speed and level of

liberalisation is going to be based on the standard that China, India and ASEAN's developing countries generally prefer, the so-called "lowest common denominator" dilemma in terms of liberalisation. Within the RCEP, Japan suggested eliminating tariffs on more than 90 per cent of products within ten years, and setting three stages on tariff eliminations (immediate, within ten years, and over ten years), with the intrinsic motive of protecting its domestic agricultural sectors from liberalisation. However, this agenda was received negatively by both advanced and emerging countries. Australia and New Zealand, with their intense motivation to increase agricultural exports, insisted on the no-exemption principle, whereas India, Myanmar, and Cambodia disapproved of the condition of "more than 90 per cent", as they still maintain higher tariffs. RCEP would be eventually established as a low-quality FTA, offering members less strict binding-rules and a less ambitious liberalisation package than the TPP.

Nevertheless, RCEP, if realised, can function as a form of pressure on the United States to reconsider its TPP withdrawal. According to the latest simulation, if the RCEP is to be realised, the United States will lose 0.16% of its GDP while Japan and China will gain 2.88% and 1.96% in their respective GDPs. It is the best option for the United States to participate in a multilateral TPP in order to offset the loss and increase its GDP: the bilateral FTA with Japan won't be a big help.



posted on August 18, 2017

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