

THE TRUMP ECONOMIC IMPACT ON EAST ASIA AFTER TWO YEARS

Trade ties between the United States and many East Asian countries have faced a high degree of uncertainty since Donald Trump took office in early 2017. The world is now accustomed to an atmosphere of sanctions, tariffs, ultimatums, and negotiations under pressure with little left off the table. The centerpiece in this drama is, of course, Sino-U.S. relations. Much is written on that, and the saga of tense talks, occasional breakdowns, and upbeat statements continued as we were proceeding with our analyses of the East Asian region. Instead of trying to unravel where that might end, we concentrate on countries in the region neighboring China. We begin with the Trump economic impact on South Korea, turn then to Japan, switch next to Southeast Asia, and conclude with North Korea. In the first three cases, we identify various similarities as well as some differences, and with North Korea, burdened with “maximum pressure,” we find an outlier. South Korea has already cut a trade deal, Japan is now beginning negotiations for an agreement with the U.S., and the states of Southeast Asia, after Trump’s pullout from TPP and Japan’s leadership in keeping the momentum alive, are striving to hold onto multilateralism.

Trump’s thinking is steeped in narrow notions of manufacturing trade deficits subsumed under the slogan “America First,” as well as updated alarm about unfair practices to coerce or steal intellectual property rights. He has rallied Americans with considerable international support behind the need to curb China’s predatory trade practices, while alienating virtually the entire world, including U.S. allies, with overcharged claims of “national security” in imposing tariffs to control imports of selected products, starting with steel and aluminum but threatening to make the sale of foreign-made cars and trucks the ultimate target for reducing the U.S. trade deficit.

Concern prevails over what further damage Trump may do to the trade environment in East Asia. In Seoul, despite relief that what was most feared when Trump railed against the KORUS FTA did not come to pass, one hears warnings that Trump may extend barriers already imposed on washing machines and solar panels to automobiles—a large part of exports to the U.S. Just on the precipice of bilateral talks demanded by the U.S., Japan also nervously awaits pressure against its even more massive automobile exports. For Southeast Asian states, the prospect of bilateral negotiations with the U.S. is frightening as well, since it is understood that smaller economies have little leverage in such negotiations. The spillover for all of these countries from hefty U.S. tariffs on China is also feared, since they are deeply integrated into production chains.

Peter E. Harrell, “U.S. China Economic Relations Under the Trump Administration at the 2-Year Mark”

Harrell discusses new policies introduced by the Trump administration, their impact, Chinese retaliation, and questions that now hang over the Sino-U.S. trade dispute. He describes economic policy as taking on a “stick forward” approach, with liberal doses of tariffs, sanctions, ramped up investment reviews, and new export controls. While U.S. tariffs against imports from allies are seemingly driven largely by the administration’s general protectionist bent, Trump’s trade actions against China reflect a broader set of concerns more widely supported by members of Congress and American experts outside of

government. These include both longstanding U.S. concerns over Chinese trade practices and market access barriers, Harrell explains. Companies have been led to re-consider aspects of their global supply chains. Retaliation has followed, including Chinese tariffs on most imports of U.S. goods, in line with a policy of reciprocating against U.S. actions but generally avoiding trade and commercial steps that would escalate tensions with Washington. China imposes them on a large majority of all U.S. goods exported to China, but it imposed these retaliatory tariffs at a pace that tracked the U.S. tariff escalation.

The new trade policy, according to Harrell, began to deliver some successes in 2018, including a successful renegotiation of NAFTA, now renamed the U.S.-Mexico-Canada Trade Agreement (USMCA), a renegotiated Korea-U.S. FTA, and at least some willingness by European and Japanese officials to discuss greater market access for U.S. products. While many major U.S. importers and trade associations have complained about the tariffs, the tariffs continue to draw support from several of the key constituency groups that they are intended to assist. Harrell explores two, alternative scenarios for the U.S.-China talks. In one scenario the two reach a trade agreement but continue to have sharp differences over specific policies and industries, such as telecommunications. In this scenario, the economic relationship is characterized by neither broad economic and political cooperation and engagement, nor by a broad decoupling of the world's two largest economies. Instead, the relationship will be characterized by what he terms "strategic coupling," a more transactional approach to economic relations in which the U.S. and China are economically coupled across many industries, but increasingly decoupled in a handful of key industries that each side sees as too sensitive for deep interconnectedness. If the two sides do not reach a deal, a broader economic decoupling becomes substantially more likely. If the Trump administration reaches and implements a deal, then, practically speaking decoupling is unlikely to occur over the next several years because increased Chinese purchases of U.S. products and greater Chinese openness to new U.S. business investment in China should actually deepen economic ties, concludes Harrell.

Several major questions hang over the next several years of U.S.-China economic relations, he suggests: 1) whether the Trump administration will pursue a strategy of a broader "decoupling"; 2) whether, and the extent to which, the U.S. will use traditional market-liberalizing agreements as a part of its economic strategy towards both China and East Asia, and the extent to which it will use other "carrots" as part of its economic strategy in Asia; 3) how will U.S. allies will manage their strategic and economic relationships with both Washington and Beijing; and finally 4) what happens after the American presidential election.

Yoon Yeo-joon, "The Trump Economic Impact on East Asia after Two Years: The Case of South Korea"

Two years into the Trump administration, the U.S.-ROK economic relationship is facing another turning point, Yoon explains. Trump is a game changer, trying to alter the global trading system and its relation to China. South Korea has been only partially affected by his grand scheme so far. However, Trump specifically blamed the KORUS FTA as a major contributing factor to the United States' huge trade deficit and domestic job losses in manufacturing. As a result, it was amended. Various protectionist measures, such as Section

201 tariffs on washing machines and solar panels, as well as Section 232 tariffs on steel and aluminum, could have a substantial impact. Protectionism in the U.S. is a grave concern considering the significance of the U.S. to the South Korean economy.

South Korea has moved to reduce the trade gap. In 2016, it imported only \$11 million of natural gas, but in 2018 it imported \$2.250 billion from the U.S. due to the shale boom in the U.S. and Seoul's efforts to reduce its trade surplus in response to pressure. In June 2017, when Moon Jae-in visited Trump, Korean businessmen accompanied him and pledged to make investments worth \$12.8 billion in the U.S. The investors include conglomerates such as Samsung, Hyundai, LG, and SK. Such large-scale investment must have been, in part, due to Trump's protectionism. But there is an intention also of promoting U.S. market access for Korean products and investing in cutting-edge technologies. Small and medium-sized companies plan to invest in the U.S. in advanced technologies. With the fourth industrial revolution looming and the hostile trade policy of the U.S., not to mention the renegotiation of KORUS FTA now being settled, it is sensible to expect that Korea's investment in the U.S. will increase, which should alleviate U.S. concern.

The Korea-U.S. FTA was fiercely criticized by Trump during his presidential campaign. He described it as a "horrible deal" and a "job killer," but the new agreement, to the relief of Koreans, contained only minor amendments. A threat over automobiles remains. The threat is not immediate, considering that Korea's overall exports of automobiles and parts to the U.S. are well over \$20 billion every year, and that KORUS revisions include an agreement to increase the number of U.S. vehicles annually exported to Korea which only meet U.S. safety standards from 25,000 to 50,000. Seoul was concerned that renegotiations would touch on sensitive areas—mainly in rules of origin for automobile products, and liberalization of agricultural products, especially rice, and currency—but these were not addressed. Given the pressure that Trump exerted regarding the trade deficit and alleged unfair trade practices, the outcome of the KORUS amendment is certainly positive for Korea, Yoon explains in taking stock of the situation.

New restrictions could be based on sections 201, 232 and 301 of U.S. trade acts. So far, restrictions on steel imports have the most significant impact on Korea, the fourth largest source country for U.S. steel imports in 2017. Even though Korea was exempted along with Argentina, Australia, and Brazil from the 25% tariff, it is still subject to a quota—70% of the annual average from 2015 to 2017. Also, Section 201 measures on washing machines are targeting companies like Samsung and LG. For washing machines, Korea's market share dropped. In response, Samsung and LG built new plants in the U.S. and began to supply their products to U.S. customers directly. The magnitude of the drop in solar panel imports is the largest. Observing the large increase in imports of washing machines and solar panels around 2014, one could see the threat that U.S. producers could have felt from the flood of imports. Section 232 tariffs on autos and auto parts loom, as the Trump administration is considering imposing 25% tariffs on these products. Exports of automobiles and parts make up about 1.6% of the GDP. So far, with the U.S. trade balance improving after Trump took office—a yearly effect of about \$3.4 billion dollars, or 14.7%—the situation has not changed markedly, but Yoon warns of more serious consequences ahead despite the successful revision of the KORUS FTA, which has kept things under control.

Shihoko Goto, “Redefining U.S.-Japan Trade Relations Under Trump”

The Trump administration has presented a unique opportunity for Japan to take on some of the roles that the United States has embraced in the Asia-Pacific region, most notably on trade. By succeeding in shepherding the TPP to evolve into the CPTPP and ensuring that it came into effect, Abe has been able to steer Japan into the role of champion of multilateralism and the rule of law. With the U.S.-China trade war posing a big risk to growth worldwide, Japan’s role in stabilizing the global economy has only increased. Yet, Japan’s potential is limited, and it faces downside risks, Goto warns. Economic nationalism continues to be a key factor driving U.S. trade policy, and the risk of Washington pressing Tokyo for a bilateral trade deal that would hurt Japanese exports, especially in the critical automobile sector, exists and could lead Japanese auto makers to reconsider their investments in the United States. The U.S. adding a provision to a trade agreement that would effectively bar Japan from negotiating an FTA with China as part of their bilateral deal would be a demand that it would not easily be able to swallow, Goto adds.

Another risk that could drive a wedge between Tokyo and Washington is how the threat of China as a rule-breaker is assessed. While the Abe administration has been quick to support the White House in pressing Beijing for structural reform, including data security, Abe has also leveraged the U.S.-China trade war to improve relations with Beijing and hedge against the uncertainties resulting from the Trump administration. Even when it comes to assessing the threat China poses in rewriting the rules of global industry and competitiveness, the possibility of a widening gap cannot be dismissed. Siding with the U.S. could: 1) potentially hamper economic opportunities with China, which would be a blow for companies, 2) antagonize the Chinese leadership into not adopting practices that would benefit Japan in the longer term, and 3) also decrease the CCP’s willingness to embrace the Japan-driven CPTPP in the future. For Japan, the possibility of the United States replicating a “poison pill” approach to isolate China from the global trade regime by pressuring other countries not to enter deals with Beijing, has been particularly worrisome. Not only does that stance make it difficult for CPTPP, it could also jeopardize progress that has been made to conclude RCEP, which would strengthen Japan’s ties with China, India, and the 10 ASEAN countries. Japan’s economic strategy has been to hedge against the zero-sum approach to trade that the Trump administration has taken. The single biggest factor that has driven Beijing and Tokyo to improve relations has been shared concern about how U.S. trade policy could hamper growth in Asia and thereby hurt the domestic economy. Japan’s multilateral vision is at odds with that of the U.S. administration, which is focused on negotiating trade deals bilaterally not just with China, but also with its long-established allies. Japan’s strategy is to continue strengthening economic relations with both Beijing and Washington and encouraging both to join the CPTPP.

For Japan, the pressure to adapt to the sudden changes under Trump has been particularly intense, given its continued dependence on the United States for security in an increasingly unstable region on the one hand, and its counting on robust trade relations with the world’s largest economy, on the other. Even as CPTPP coming into effect drew closer by the end of 2018, U.S. interest in negotiating a bilateral trade deal over which it would have the upper hand became clear by September 2018. The compromise has been to embark on

trade negotiations that focus just on goods, not services. But Japan has no confidence that will stick. Even if it did, Washington's focus on tackling its massive goods trade deficit by leveraging Section 232 of the 1962 Trade Expansion Act, which allows the U.S. president to impose restrictions on certain imports seen to threaten national security, is a source of anxiety. Abe has not only been unable to persuade the U.S. to rejoin the TPP, Japan is also being hit with steel and aluminum tariffs in the name of national security, in spite of the very public overtures to accommodate U.S. leadership by the premier. It is unable to avert what it had tried to avoid from the beginning of the Trump administration—to negotiate a bilateral trade deal with an administration that would focus on reducing Japanese exports of automobiles and auto parts into the United States. With Trump simply postponing the possibility of extending Section 232 tariffs onto the auto sector until bilateral negotiations are concluded, there is a growing sense of unease about the outlook for U.S.-Japan trade ties and relations. It seems increasingly likely that not only would the auto sector be targeted for tariffs by the United States, but that there would also be a comprehensive trade deal also including services and dealing with currency-related issues—all of which would put pressure on Japan.

At the midway point of the Trump administration, Japan has actually emerged stronger, at least on the trade front, insists Goto. Moreover, when it comes to Washington confronting China over its systemic unfair trade practices, Trump has succeeded in garnering support from its traditional allies, most notably Japan and the EU. The three have worked together through the WTO since late 2017 to draft new rules regarding forced technology transfers, intellectual property rights, digital trade, and broader WTO reform to bolster transparency. Together with promoting the Indo-Pacific strategy, the trilateral effort to pressure China to change its system is a clear example of multilateral efforts to challenge Beijing's strategic ambitions. Yet, it should be noted that Japan, the U.S., and the EU have deliberately avoided antagonizing China, Goto concludes, treating this initiative as a rare exception to the unilateralism putting Japan's economy at risk.

Kaewkamol Pitakdumrongkit, “The U.S. Indo-Pacific Strategy and Its Implications for U.S.-ASEAN Economic Governance Architecture”

In November 2018, Mike Pence maintained that Washington plans to “make bilateral trade agreements with any Indo-Pacific nation that wants to be our partner and that will abide by the principles of fair and reciprocal trade,” promote private sector investment, and assist regional states on sustainable infrastructure development. This was added to an Indo-Pacific strategy cast on the assumptions that China is a revisionist state and Washington and Beijing are competing for power. On December 31, 2018, Trump signed into law the Asia Reassurance Initiative Act (ARIA) passed by the U.S. Congress, which authorizes \$1.5 billion ensuring “the regulatory environments for trade, infrastructure, and investment in partner countries are transparent, open, and free of corruption.” This can help to mend Southeast Asia's infrastructure financing gap, to fund its connectivity projects with \$184 billion annually from 2016 to 2030. U.S. connectivity assistance will offer additional options for ASEAN countries, allowing the latter to conduct power balancing between Washington and Beijing. It is mainly because the regional states are

increasingly concerned about Beijing's debt trap diplomacy undermining sovereignty, that they are keen to receive such assistance, allowing them to move away from China's sphere of influence and balance between the U.S. and China to serve their own interests. Compared to previous administrations, the Trump cabinet focuses more on economic matters.

The economic components of the U.S. Indo-Pacific strategy cover three areas: 1) trade, 2) investment, and 3) infrastructure/connectivity. The interactions between the administration's Indo-Pacific strategy and agendas promoted by Southeast Asian nations differ by issue area. In terms of trade, Washington's policy clashes with those pursued by several ASEAN states. While the former tends to rely on trade bilateralism to advance regional trade governance, the latter opt for multilateral means. To regional states, bilateral trade negotiations give bigger economies the upper hand, hence enabling them to shape the outcome in their favor. Such a view was reaffirmed as these policymakers watched how the KORUS renegotiations unfolded. Seoul was forced to make concessions. ASEAN nations are not keen to negotiate bilateral deals with the U.S., putting their countries at a disadvantage, Pitakdumrongkit concludes.

Trade policies championed by the U.S. and ASEAN countries are likely to bifurcate. It is partly because the Trump administration is likely to continue using trade balances to define "fair" in its pursuit of "free, fair, and reciprocal" trade. Because the U.S. has a \$92 billion goods trade deficit with ASEAN economies collectively, there exists little room for Southeast Asian parties, especially those running a trade surplus with Washington, to strike deals satisfying all involved. The U.S. and Southeast Asian countries' trade agendas are running in the opposite direction with little prospect of policy convergence.

Why do ASEAN nations prefer multilateral contracts? First, their economies are intertwined in transnational production networks. In 2017, 28.57% of total exports of all ASEAN states were intermediate goods. Second, China's structural reform and middle class are likely to yield positive effects on the region. Thanks to Xi Jinping's commitment to transform the country into a consumption-driven and services-driven economy over the next decade, Southeast Asian states have enjoyed the windfall of Beijing's move. For one thing, the number of Chinese tourist arrivals in the region quadrupled in the past ten years.

The jury is still out, however, on the degree to which U.S. strategy would align or clash with different approaches supported by Southeast Asian governments. Clashes of ideas and policies can result in not only failure in U.S. implementation of its strategy but also in competing economic initiatives which could undermine the future of U.S.-ASEAN trade and investment ties. Pence affirmed that Washington's approach was "a better option. We don't drown our partners in a sea of debt. We don't coerce or compromise your independence. The United States deals openly, fairly. We do not offer a constricting belt or a one-way road."

As far as investment is concerned, while there have not yet been concrete programs introduced by the Trump administration, it can be argued that its Indo-Pacific policy direction is likely to complement ASEAN's agenda and boost U.S.-ASEAN investment ties and governance. Washington's policies regarding investment can result in a higher number of U.S. enterprises establishing their operations in the region, heightening American investment in Southeast Asia. Yet, ASEAN members are increasingly concerned about the effects of certain

U.S. regulations. The action by CFIUS in March 2018 is a case in point. CFIUS, an inter-agency committee tasked to investigate international transactions that can lead to foreign takeovers of American corporations and assess their impact on U.S. national security, blocked the acquisition of U.S. chipmaker Qualcomm by Singapore's Broadcom.

The Trump administration's Indo-Pacific strategy and ASEAN's economic policies clash in respect to trade, while they are complementary in the investment and connectivity realms. U.S. and ASEAN policymakers should prioritize deepening cooperation in the areas of investment and infrastructure where there is no obvious policy clash. Both sides should roll out concrete projects boosting transparency in cross-border investment, encouraging the involvement of the private sector, and ensuring that investment can encourage innovation and entrepreneurship. Moreover, they should push forward the U.S.-ASEAN Trade and Investment Framework Agreement (U.S.-ASEAN TIFA) launched in 2006, which sets a strategic framework and principles for trade and investment dialogue. Although U.S. and ASEAN members may not be able to negotiate and conclude multilateral trade deals in the short term, they should maintain regular formal and informal dialogue. Keeping communications going can not only diminish any likelihood of misperceiving or misinterpreting one another's policies, which could escalate into a full trade war, but can also raise the prospect of collective action to move forward trade cooperation.

Benjamin Katzeff Silberstein, "The North Korean Economy and U.S. Policy: Stability under 'Maximum Pressure'"

Silberstein argues that the Trump administration aims to squeeze the North Korean regime by targeting its economy, hoping that the economic pain inflicted will force the country to cede to U.S. demands for abolishing its nuclear weapons. He adds that Trump and those who support his strategy tend to argue that "maximum pressure" was the chief cause for Kim Jong-un agreeing to the Singapore Summit in June 2018. Yet, some argue that the added sanctions under "maximum pressure" have had little to do with North Korea's willingness to negotiate with the United States. Based on both quantitative and qualitative data, Silberstein concludes that while the sanctions that followed the inception of "maximum pressure" have not backed the regime into a corner, they are still inflicting a great deal of economic pain on the country. No data, however, suggest a general economic crisis in the country. Furthermore, to the degree that the economic pressure has been successful, it is because China has implemented the sanctions to a much higher degree than in the past, but China's cooperation is now at odds with Trump's pressure strategy.

The main difference for China is that tensions between the U.S. and North Korea reached so high a level at the zenith of Trump and Kim's war of words in 2017, that it perceived real risks to its strategic interests, likely fearing armed conflict. The North Korea economy has been badly hurt by Chinese sanctions implementation, but not badly enough to plunge into crisis, Silberstein finds. Sanctions have caused the regime big losses in foreign currency income from lost exports of coal and other minerals, fishery products, and foreign labor. Most likely, the regime's foreign currency assets are becoming increasingly depleted by the day. Sanctions have also made it difficult for the country to acquire sufficient amounts

of fuel. Yet, due to its totalitarian system, North Korea has a high threshold for pain. For Trump's sanctions policy to reach its full potential, it would likely need to be in force for one or several more years, with the full cooperation of both China and Russia, an unlikely prospect. However, China had earlier refused to implement the spirit, if not the letter, of the sanctions, and its support if talks break down, as they seem to have after the Hanoi summit, is far from guaranteed. Thus, the Trump strategy appears in doubt.

This chapter presents data on Sino-North Korean trade, rice prices in North Korean markets, currency fluctuations, and gasoline supplies to argue that "maximum pressure" is not inflicting severe pain. It further argues that such pressure was not the primary cause for Kim Jong-un's shift to diplomacy and is unlikely to bring him to his knees. Moreover, to the extent that pain has been inflicted, it has been because China, at last, agreed to stringent sanctions and implemented them, but as the danger of war has receded, the motivation for China's enforcement is doubtful.