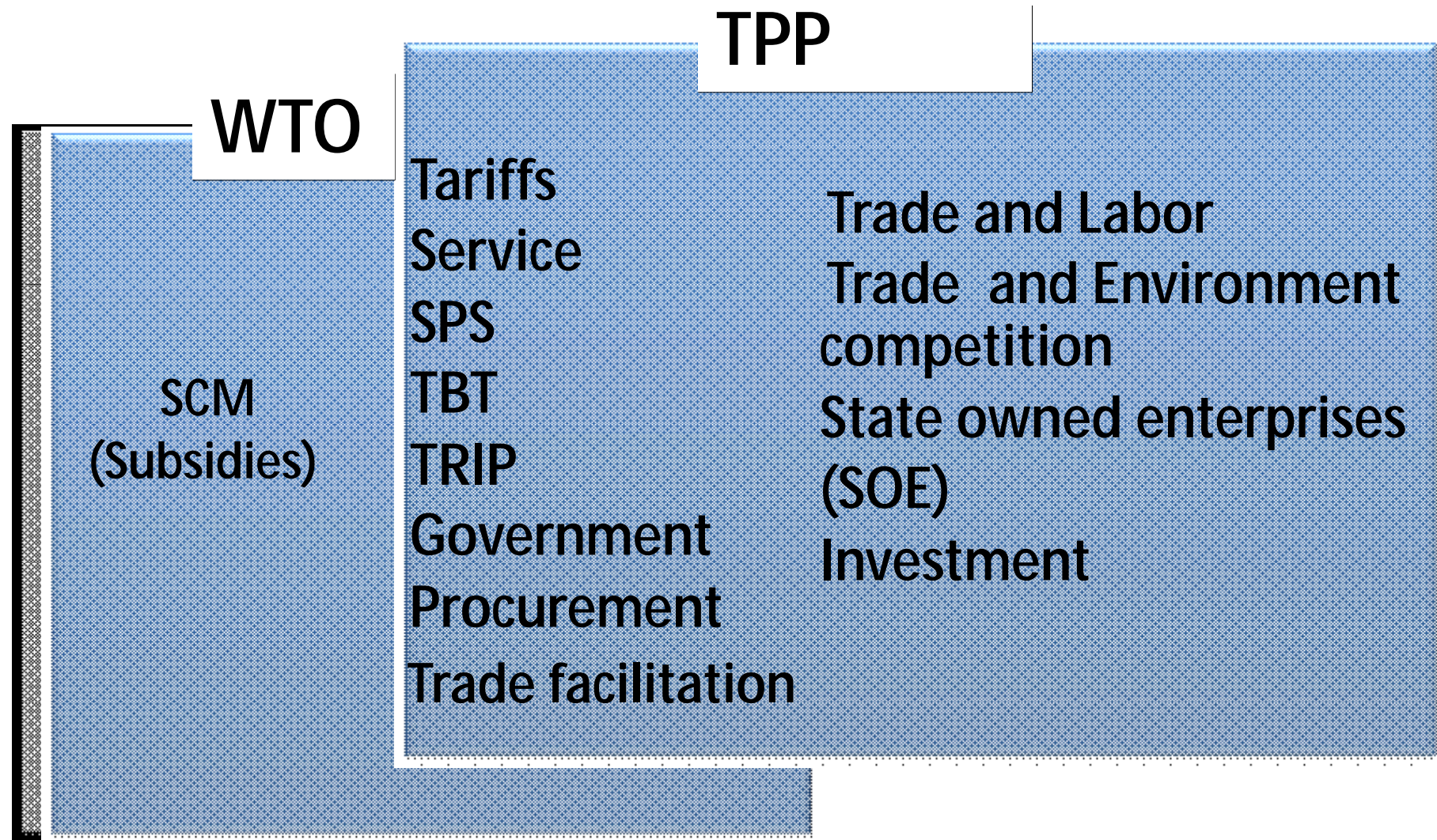


Trump's Trade Policy and East Asia

Research Director,
the Canon Institute for Global Studies
Senior Fellow,
Research Institute of Economy, Trade and Industry,
IAA
Kazuhito YAMASHITA

The relationship between **WTO** and **TPP**



New trade and investment rules by TPP

- ▶ **Race to the bottom** by manipulating labor and environmental regulations will be disciplined.
- ▶ Stronger protection of **intellectual property rights**
- ▶ **ISDS** protects overseas investment from discriminatory measures.
- ▶ Disciplines on **forced technology transfers** in case of investment
- ▶ Level playing field between **State-Owned Enterprises** and private companies. Possible new disciplines on China.

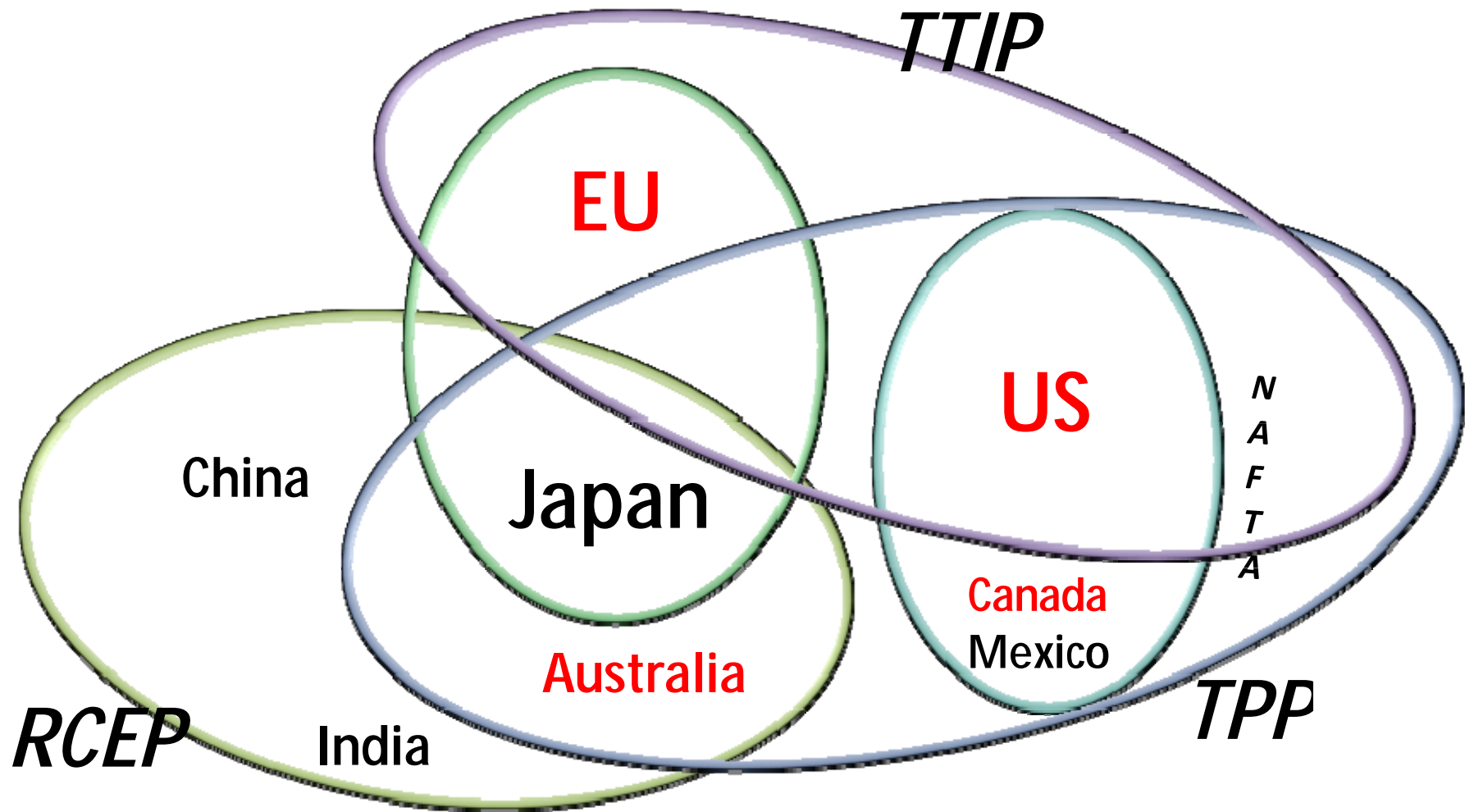
New TPP without US

- ▶ Japan withdraws all of the agricultural concessions to the US.
- ▶ Australia will pay only 9% tariff on beef exports to Japan; whereas the US will have to pay 38.5% tariff. In the Japanese market, the US will eventually lose its share of beef to Australia, pork to Canada and the EU, wheat to Canada and Australia, and dairy products to Australia and New Zealand.
- ▶ When I proposed TPP without the US in the summer of 2016, I argued that the US would have no choice but to bid for membership in the new TPP deal.

TPP will expand or accelerate other FTAs

- ▶ The essence of FTA is **discrimination**: it is disadvantageous not to join it.
- ▶ Mega-FTA has **domino effects**: Korea, Taiwan, Philippine, Thailand, Indonesia, Columbia and U.K. show their interest to join TPP.
- ▶ China is also interested in TPP. RCEP is accelerated by TPP to say the least.
- ▶ The EU has concluded FTA with Japan.

Mega-FTAs




Trump's trade policy hurts US

- ▶ US raises tariffs on steel and aluminum
 - ⇒ This weakens the competitiveness of the US domestic industries such as auto and aerospace that use steel and aluminum
 - The EU's retaliatory measure on motorcycles makes Harley-Davidson relocate its part of production out of US
- ▶ US raises tariffs against China
 - ⇒ Chinese increase of tariffs on soybeans hurts US farmers
 - ⇒ 12 billion one-shot relief program fails to eliminate farmers' concerns. It is terribly unpopular even among Republican lawmakers. They argue that they need not aid but trade.
 - ⇒ Why are farmers alone to be supported?
 - ⇒ Trump argues that the European Commission promised to expand the EU's import of soybeans. However, the EU's tariff on soybeans has been zero for years, and the EU has no state trading enterprise unlike China. Then how?

Increase of tariff on **autos**

WHO LOSES MORE ?

- ▶ More than half of Japanese cars in the US market are made in the US. The US auto industry also imports American cars made in Mexico.
 - ▶ The cost of cars made in US will also increase by 10 to 13 % due to increase of tariff on auto parts, steel and other apparatus, compared with 22.5 % increase of cost for finished auto imports **in the US market**.
 - ▶ Be aware that increase of cost is different from shift of the cost increase to price which depends on the elasticities of supply and demand.
 - ▶ **Japanese exports to China face 15% tariffs while the cost of US exports increases by 54%** (1.1X1.4, tariff on tariff). American cars made in China also lose its competitiveness due to the high tariffs on auto parts imported from US.
- 

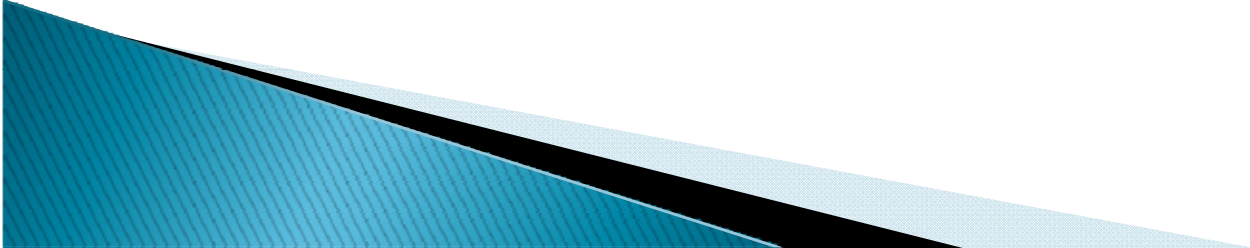
Economic theory

- ▶ **Optimal Tariff Theory** \Leftrightarrow **If the other countries retaliate against US**, the world trade volume will shrink, which will **damage all countries, including the US**, compared with the time before the US tariff increase.
- ▶ **Prisoner's Dilemma** \Leftrightarrow If both were in the same room and cooperating with the other, the possibility of the result of this dilemma would be minimized. The **beggar thy neighbor policy** after the Great Depression was an example of the prisoner's dilemma. To prevent it from happening again, the GATT was founded.
- ▶ **The fundamental principle of GATT was not unilateralism but collectivism in which each country would not engage in competition to increase tariffs.** Trump dares to change this.

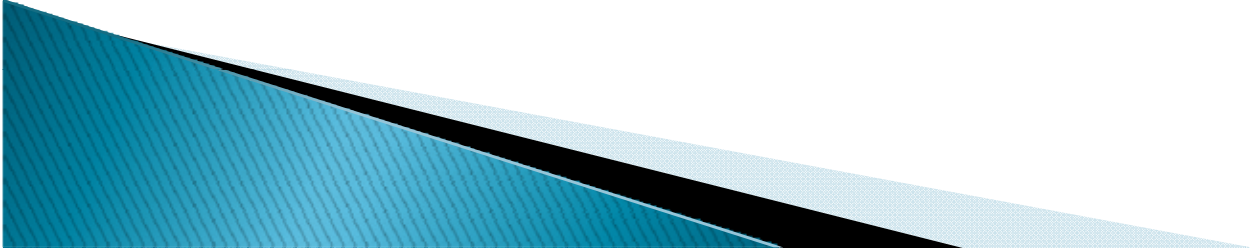
Trump's policies are **inconsistent** with WTO

- ▶ **Section 232** \Leftrightarrow GATT Article 21 “any action which it *considers necessary for* the protection of its essential security interests” “*Necessary for*” is strictly interpreted as in **the absence of reasonably available less trade-restrictive alternative measure** in GATT Article 20 hard to justify the exemption of some countries
- ▶ **Section 301** \Leftrightarrow US complaint against Chinese measures such as forced technology transfers **is not within the purview of WTO. But the measure is inconsistent with the GATT's MFN principle.**

Catch the Trump policy in a "pincer movement" from both inside and outside

- ▶ File a **WTO complaint** squarely. Japan should make practical-minded responses separating its economic and political interests.
 - ▶ Japanese companies conducting production activities in the United States should **file a suit** to cancel the increase in tariffs along with these affected companies **in U.S. courts**, on the basis that the U.S. government is unjustly applying Section 232 of the Trade Expansion Act.
- 

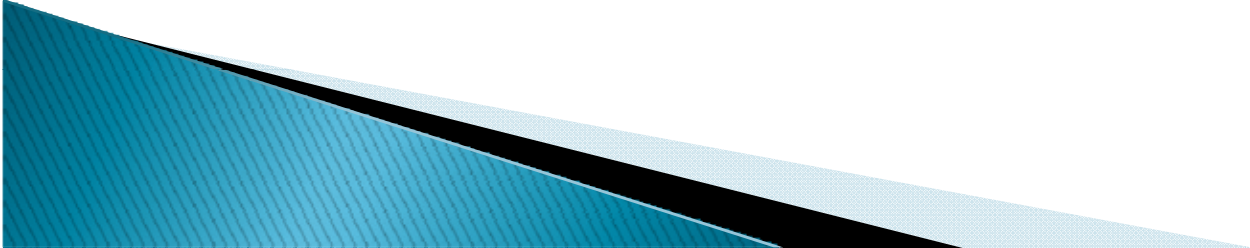
Japan–US trade dialogue

- ▶ The US demands a bilateral FTA in order to reduce tariffs on US beefs and other US farm produce. It wants not TPP but a bilateral FTA while Japan tries to avoid the latter which tends to force Japan to further reduce tariffs.
 - ▶ Japan would like to avoid the imposition of high tariffs on Japanese autos. It refers to the US–EU agreement in July which defers the application of auto tariffs while both parties are in the negotiation of tariff elimination.
 - ▶ But for the US, is Japan a foe to fight against?
- 

How to **reform WTO**

- ▶ The US argument that the WTO fails to address the Chinese behavior makes sense. How can we modify the current WTO agreements which stipulated 25 years ago or add new ones to the WTO?
 - ▶ **Plurilateral Agreements?** China will not join the agreements on intellectual property rights, state-owned enterprises and investment.
 - ▶ We can **expand the participants of TPP**.
 - ⇒ Let China a member of TPP by a domino effect
or
Let the WTO accept the chapters of TPP which is a dominant Mega-FTA in the world (the EU will support this proposal)
- 

US–China Trade War

- ▶ The world economy may be damaged. Japan may export less to both countries.
 - ▶ The gains from trade are those for consumers. The increase of tariffs hurts consumers of both countries.
 - ▶ But these adverse effects may be mitigated to a certain degree because only tariffs on trade between two countries increase. China increases tariffs on US soybeans while Brazil exports soybeans to China as before. **One road is blocked but the others are open.** Chinese consumers suffer from much less increase of price than that of tariffs on US soybeans.
 - ▶ Brazilian producers take advantage of this while US farmers lose. Just as Harley–Davidson, some industry relocate its part of production out of US but farmers cannot.
 - ▶ Importers of soybeans in the rest of the world enjoy the decrease of price.
 - ▶ This will change the flow of the world's supply chain at the expense of the two countries. The world's supply chain would try to circumvent the blocked road by high tariffs.
 - ▶ In a nutshell, **who are the losers?**
- 

The consequence of the Trump's trade policy

- ▶ Many Republican representatives are from agricultural regions other than urban areas located near East or West Coast. (Trump won only 4% of votes in Washington D.C in the 2016 Presidential election.)**The Republicans are now a rural-based party.**
- ▶ Trump's trade policies may gather a few votes from supporters in "Rust Belt" states such as Michigan and Ohio, but **US export industries will be hit by retaliatory tariffs** from other countries.
- ▶ One of these export industries is **agriculture**, which is an important base of support for Republicans. If they become anti-Trump, the Republicans will drop to the status of minor party and Trump will become a lame duck. But **when?**