

## Session Outline

<b>Name of Session</b>	Asia's Contribution to the Global Open Market		
<b>Session Organizer</b>	Friedrich Naumann Foundation for Freedom	<b>Date</b>	1 June 2017
		<b>Time</b>	14.50-16.20
<p>Moderator Dr. John Delury, Associate Professor, Graduate School of International Studies Yonsei University</p> <p>Welcoming Remarks Presenter(s) Dr. Lars-André Richter, Head Friedrich Naumann Foundation for Freedom Korea Office</p> <p>Discussant(s) Dr. Razeen Sally, Associate Professor, Lee Kuan Yew School of Public Policy National University of Singapore</p> <p>Wan Saiful Wan Jan, Chief Executive Institute for Democracy and Economic Affairs, Malaysia</p> <p>Dr. Kim Young-Han, Professor, Department of Economics Sungkyunkwan University</p>			

## Summary of Presenters & Discussants' Remarks

### **Dr. Lars-Andre Richter**

Friedrich Naumann Foundation (FNF) is a German non-profit organization, founded in 1958 post-war West Germany. The main goal at the time was to help re-establish democracy in West Germany. Shortly after, FNF opened offices abroad, including in Tunisia, India and Indonesia. The office in Korea was opened in 1987. We promote liberty in Korea through a variety of programs including democracy building, projects with market economy, human rights, rule of law and also the re-unification issue, bringing in the unique German experience of re-unification. In fact, FNF has projects in both Koreas. The North Korea program started in 2004, focusing on economic policy. The session today at the Jeju Forum is hosted by both FNF and Economic Freedom Network Asia (EFN Asia), FNF support's network of liberal minded think tanks and individuals.

### **Dr. Kim Young-Han**

#### *Threat of the Protectionism by the US Trump Presidency*

#### - Why Protectionism by the Billionaire US President?

Trump thinks that the current format of 'the Global Open Market System' is unbearable and unsustainable for the US blue collar workers. Are US blue collar workers simply irrational? No, they are absolutely rational.

- The US blue collar workers know that there is not and will not be an effective trade adjustment assistance system in the US. Winners get everything with no room for losers in global open market according to the US experiences. (The same with the Brexit case.)

#### - How much of a threat caused by the Trumpian Protectionism?

Very threatening and disastrous. If Trumpian Protectionism is spilled over to major trading countries, the global trade war is the next stage, just like the experience before the two World War. The current one-sided protective measures of the US are highly likely to provoke retaliatory measures from trading partners.

#### - Is Trumpian Protectionism Sustainable?

Not really, since it's self-defeating. Why? The source of gains from free trade: Efficiency Gains via Reallocation of economic resource from inefficient sectors to efficient sectors. In the US, without the effective trade adjustment assistance mechanism, resources in the inefficient sectors became laid-off instead of being reallocated. What Trump tries to do is to keep inefficient sectors protected as inefficient, which is self-defeating and unsustainable. He suspects Trump will realize this after 3-4 years.

#### - Can other powers fill in the the US role?

The Share in the Global Trade: EU takes roughly 40% of the world trade, followed by Asia which takes 33%, and North America (17%). If the US goes back to protective regime, it is bad, while the other players can keep the remaining 83% under free trade regime. The EU might play a more meaningful role in leading the global free trade regime and also Asian powers like China. But he does not think so.

- The requirements for the leadership the global free trade regime: Leader has to prepare itself and operate on a rule-based trade policy and National Treatment for all players (treat all players as domestic players). The EU is more prepared, but not China. Furthermore, Big Players with market power are likely to resort to bilateral arrangements based on one-sided bargaining power. Therefore, relying on a multilateral platform is better than relying on a big guy leading power. Rebuilding the Multilateral Free Trade Regime via WTO is the solution.

### *The Role of Asia in Rebuilding the Global Free Trade Regime*

- Datawise, Asia takes significant market power, i.e. 33% of the global trade. Historically speaking, all Asian countries' economies, such as Japan and South Korea, have emerged via the global free trade regime with no regret against the multilateral free trade regime, WTO. A multilateral free trade regime as WTO is welfare dominant to a single country leadership (by whether the US or China). Asia has kept the spirit of multilateral or plurilateral free trade regime via ASEAN and ASEAN+3, and even ASEAN +6. Asian economy with her complexity in terms of diverse stages of economic development and asymmetry of economic size and power works as a miniature of the global economy with gradual and sustainable unit of economic integration.

- Condition for "Sustainable Global Open Market System"

i) Effective Trade Adjustment Assistance Mechanism: Losers (i.e., workers in the importing competing sectors with comparative disadvantages) should be reallocated to Winners' sectors (jobs in the export sectors with comparative advantages) via Effective Trade Adjustment Assistance Mechanism.

ii) Multilateral Free Trade Regime with strong surveillance and reputation building mechanism with respect to the Big Guys with market power

#### **Dr. Razeen Sally**

He has three main points to make. First, where we are in the global economy, particularly on trade. Second is on protectionist threat. Third is on what can be done in and by Asia to keep the market open.

- Where are we in the global economy?

Economic globalization has not been reversed, since the global financial crisis, but it has stalled. There has been a global growth slowdown. Trade to GDP worldwide has not increased, since about 2006. Foreign direct investment flow has decreased, since the crisis. Cross-border flow of finance has decreased considerably, as expect from the global financial crisis.

- But particularly on trade, something unusual is going on. Since the beginning of 19<sup>th</sup> century until 2008, world trade grew faster than world output, which is the indication that trade is the engine of growth. But since 2012 until the end of 2016, trade growth barely kept pace with world GDP growth at about 3 percent or less. This is highly unusual and tends not to happen except in war and deep recession. This is particularly worrisome for Asian nations, whom depend on exports. But still too early to tell if this is a new trend.

- What is happening to world trade? Why does it slow down? Is it simply because world economy slowing down? If that is the case, then it is not worrisome and only something cyclical. Or is it something more structural going on? Is the big liberalization days are behind us, since there is no China to liberalize anymore? If this is the case that the trade is going to grow more slowly in the future, then that is very bad for the export-driven economies. But he is on the more optimistic side.

- Second, concerning the protectionist threat, on the good news, though we have seen more protectionism, since the global financial crisis, it has not been that much. In fact we should have seen more, but thanks to the globalization and global supply chains, the real upsurge of protectionism as we have seen in the 1930s and 1970s has not happened today. What we see today is the kind of creeping protectionism with non-tariff barriers, such as subsidy, product procurement standard, government requirements, to increase the protection. But so far it has not affected that much of trade.

- The big question now is, with new protectionism, will creeping protectionism gallop? The upfront threat is from the US and Europe, from the populist backlashes. Most worrying is on

the US with the Trump Presidency on NAFTA, TPP (already withdrawn), China bashing, obsession with bilateral trades. All of these are economic nonsense or 'pop internationalism' and it is dangerous.

- But we cannot forget that Asia is relatively protectionist. In fact, much level of protection in Asia than in the West and one of the biggest culprits is China, although the rhetoric from China is free trade.

- The big question is, with the new protectionist threats from the West, but not just the West, will we see the upsurge in protectionism? If we do see the kind of tit-for-tat retaliation, then that will have a bigger effect on global value chains and on global growth and that is what is there to be contained. The depressing scenario is that we return to a kind of 1930s scenario of depression. That kind of combination exacerbates international tensions which led to war. But he is optimistic and does not think this is an imminent prospect. Somewhere along the line is a more realistic scenario.

- Third, what can we in Asia do about it? The obvious point is, to quote the German economist, Wilhelm Roepke, 'internationalism like charity begins at home.' Not abroad, not in the WTO, not in some far off international organizations, but rather at home. Government should do their best to contain protectionism and keep their market open regardless of what others do. Some in Asia will be inclined to do that, such as Singapore and Hong Kong, because it is in their interests anyway. The concern is with the medium and large size economies, which has a lot of protections, like China, India and Indonesia. In the protectionist climate, their tendencies are to retreat to protectionism. Therefore we cannot rely on individual country to keep the market open, but we have to rely on external forces like the role of the US in Asia on both security (geopolitics) and trade.

- Asian miracles are very much the result of the US security blanket and leadership (on writing the rule and enforcing the rule on liberal economic order). Without that, the prosperity we have seen in Korea and elsewhere would not have happened. But that American leadership is under threat as never before in the last 70 years. Some signal has been sent for China to take that leadership, on trade through the RCEP, on infrastructure. Will a Pax Sinica replace Pax Americana and will that be a good thing?

- He thinks it is neither inevitable nor desirable. Chinese leadership on security will only increase more unstable balance of power in Asia, without the US as a balancing power. Chinese leadership on economic front is weak on trade. There are problems in infrastructure and China's practice is a narrow-minded mercantilism in its bilateral relations and it is all about buying up political and commercial elites. It would be a different and worst form of capitalism in Asia. It is vital for the US to remain to engage in Asia in both security and economic areas. If we are see peace, open society and more prosperity in Asia, we need American leadership.

### **Wan Saiful Wan Jan**

Asia overall has benefitted from the global open market, such as Hong Kong and Singapore and Malaysia. To narrow it down, Malaysian government recognizes the value of open trade and liberalization. It recognizes the benefits of TPP, AEC and RCEP.

- The presence of US, although important, has not always been helpful to the promotion of open market. When there is a strong American presence, the reaction and resistance is equally strong. For example, in the case of TPP, one of the key critics is that it allows the US companies to dominate. Now that the US is retreating, China is definitely trying to assert its role. We are still grappling how to deal with the rise of China and with this new normal.

- He is concerned with this new normal, but he is not worried that China is a threat and that

it is not spreading communism. The real threat is that the recipient countries failed to adapt to this new normal and we failed to reform for the promotion of good governance that has happened for so long.

- Take for the case of Malaysia, the reforms, including the rule-based system, comes with the Western investments. Now with the influx of huge Chinese investments, there is no demand which comes with it. How do we react to that? This is a dilemma. Many Asians are not democratic countries and China is showing to others that you can pursue capitalism without being democratic, and indeed Singapore too.

- Challenges can only be addressed if the Asians countries stay committed to the reforms (liberal democracy) within the countries themselves. But he is not sure whether the reforms will stay as there is no pressure and no sample from the big power.

## **Discussion**

**Dr. Delury:** We have to weather the storm with the Trump presidency. What can Asian nations do? Any proactive ideas for Asian nations?

**Dr. Sally:** It is not all doom and gloom. There are significant countervailing forces. It has not translated into actions yet, except American exit from TPP. NAFTA is still there and no increase protectionism against China yet.

- Looking at the countervailing forces, American firms are very much woven into the complex global value chains. If noises from Trump translated into actions, American firms and their workers will be the first to affect and they will take actions against it. Indeed they already successfully prevented the prospect of American exit from NAFTA under Trump.

- There are also serious internationalists within the Trump administration. It is the challenge of Asians to join forces with the kindred spirit in the US. What is missing is only the leadership from the White House.

- Chinese leadership is not inevitable for two reasons: domestic and external weaknesses. Domestically speaking, we tend to gloss over. China is in dire need of structural reforms and that the old model cannot deliver the kind of growth and the kind of satisfaction that the Chinese expect. It needs serious market reform to sustain the growth. There is a problem with the vested interest in the party which prevents the quality macro reforms from taking place.

- The combination of Mao and market will not work. There is a basic contradiction. You can have autocracy and catch-up growth, but it will not work for a mature kind of growth and a mature kind of capitalism, in moving from imitation to innovation, from perspiration to innovation. You need liberalism and democracy for those and this is where China is stuck.

- Externally speaking, China's model is more about crony capitalism and not about spreading prosperity. It is about infrastructure projects and a much bigger role of state. It is also about bilateral relations, co-opting with local elites and making the capitalism more cronyistic.

- Therefore, China will not be able to take a role as an effective leader. There is no option anywhere else. The EU is not possible and Europe needs the US as much as Asia does. It is not that we can depend on US being benevolent and unilaterally wise, but we still need the US as an indispensable nation in Asia to work with the other positive forces in Asia.

**Dr. Delury:** To Wan Saiful, can you explain more on your ideas?

**Wan Saiful:** We need to stay committed to the reform agenda now that there might not be external pressure anymore. Chinese come in with no reform agenda. Chinese huge investments may also affect politics in many countries, especially Malaysia, extending the 60 years of one-party rule.

**Dr. Sally:** How will these things happen, Wan? Usually these things happen with a combination of domestic and external pressures. We saw a lot of unilateral reforms in Asia, but it is under the US umbrella providing global and regional order, establishment of multilateral institutions, and maintenance of global and regional pacts which prevent war from happening. Illiberalism abroad will reinforce illiberalism at home.

**Wan Saiful:** The rise of illiberalism in the background has existed together with the rise of liberalism. It is the results of people feeling left out from the benefits of liberalization. The key drive of politics is of how public at home feel. We have not educated people at home well enough. That is what we need to do.

**Dr. Delury:** I would like to ask you shortly about TPP and RCEP.

**Dr. Kim:** Korea already has bilateral deals with most countries in TPP and RCEP. Japan is the main exception, so not too much effects. However, with the Trump effect, these multilateral deals become more important, even though it may have limited material effect to Korea, but it provides the stepping stone for multilateralism.

**Dr. Sally:** TPP and RCEP are very different. TPP is a strong trade agreement. It is a real loss for the US itself to withdraw. If it were to implement, it would be a real positive force for the members. Might it go ahead without the US leadership? It depends on Japanese leadership. There is also a prospect for the US to join in the four years' time and also for Britain to join.

- RCEP will most likely follow the pattern of other Chinese and other intra-Asian free trade agreements. That is to say, removing tariffs, but with long transition periods and does not touch on sensitive agricultural tariff. It will not address the non-tariff and regulatory barriers that are much bigger barriers to trade. It will be a low level, low standard agreement that might not make that much different.

**Wan Saiful:** RCEP is almost a definite thing already, but it is not so robust. Malaysians are more excited about AEC, which is closer to heart.

**Dr. Delury:** Leave your last word in two to three sentences in the topic of Asia's contribution to the global open market.

**Wan Saiful:** We can only make a positive contribution to the world today if we can maintain our commitment to our internal reform and we need to appreciate that external pressure may not continue to be there, but despite that we must continue the unilateral commitment to reform.

**Dr. Kim:** Talk for the sake of talk really matters in terms of re-establishing the multilateralism. So you should continue to talk even if that talk does not produce any real, feasible and imminent benefit in a multilateral format. That is how the WTO could prevent another round of global trade war.

**Dr. Sally:** 'Just do it.' It begins at home.

**Keywords:**

Asia, Trump presidency, New protectionism, China, Global trade war, Multilateralism, Global open market, Liberal economic order

## Policy Implications

- Trump presidency is a threat to the global open market. It is inclined to erode the liberal economic order which the US has provided in Asia for the past 70 years.
- The US presence in Asia is still necessary, in providing the security platform as well as enforcing the liberal economic order.
- China will definitely assert its role, particularly in Asia, but it has its own severe weaknesses. China's leadership is a dangerous one and a worst kind of capitalism. Moreover, the EU is unable to fill in the vacuum.
- Asian nations will have to stay committed to the liberal reform agenda, now that the external forces may not be there anymore, as this will benefit both themselves and the world.
- New protectionism possibly creates a trade war, if the tit-for-tat retaliation occurs, and that could lead to a disastrous outcome. However, in a today's globalized world, with a complex and interwoven global value chains, and other countervailing forces, especially in the US itself, the extreme effect is an unlikely scenario.

## Rapporteur Information

<b>Name</b>	Pett Jarupaiboon	<b>Affiliation/Title</b>	Friedrich Naumann Foundation /Regional Programme Manager (Economic Freedom and Human Rights)
<b>Mobile Phone</b>	+66-8-6666-5127	<b>E-mail</b>	pett@fnst.org