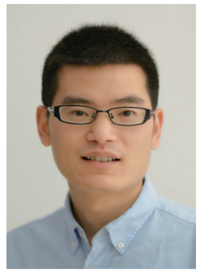
“America First” & the Future of the Asia-Pacific Regional Order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President Donald Trump’s recent trip to Asia reminded regional nations again of the fact that the United States still dominates the region, but is less willing to make leadership commitments. At the APEC Summit in Da Nang, Vietnam, on Nov. 10, 2017, Trump told Asian countries that “economic security is national security”. The US requires regional countries to renegotiate and adjust their trade policies to create “fair and reciprocal trade”. Moreover, Trump and his team frequently introduced the concept of a “free and open Indo-Pacific” to construct a new Asia policy. Whether “Indo-Pacific” means a new Asia strategy or just old wine in new bottles, regional nations need to take the Trump administration seriously. The rest of the world, as well as the US, has to adapt to a new era because of the new style of US leadership.

US Power & Leadership Crisis

The grand theories in international relations based on Western countries’ experiences, whether classical realism, liberalism or constructivism, all concern the relationship between international forces and state behavior. In reality, international relationships are the most important factor in influencing a nation’s political decisions, not only in foreign policy but also in domestic policy.

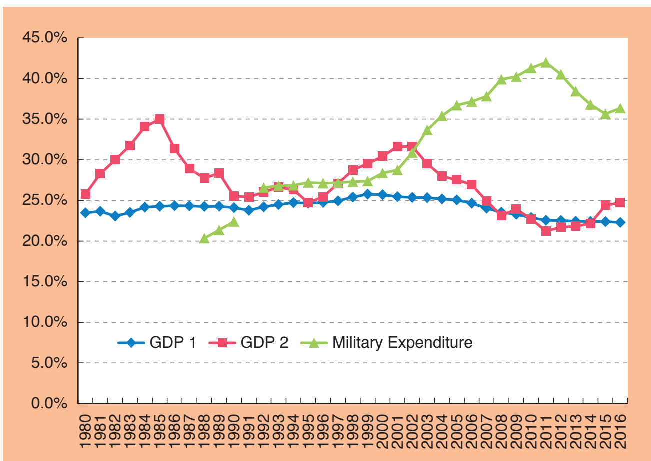
The 2008 international financial crisis and the rise of China were considered major forces in stimulating the administration of former President Barack Obama to implement a rebalance strategy towards Asia. The US still attempts to maintain its global leadership, particularly the liberal international order, a typical case being Obama’s willingness to push the Trans-Pacific Partnership (TPP) agreement. “We can’t let countries like China write the rules of the global economy,” Obama said when 12 nations reached a final agreement on the TPP in Atlanta on Oct. 5, 2015.

However, since the 2016 presidential election, Trump has dramatically changed that landscape. The first executive order signed by the new president was to withdraw the US from the TPP. That was symbolic of a leadership crisis. To Trump, the 12-nation pact involves too many concessions to other nations, and is unfair and unacceptable. While Chinese President Xi Jinping claimed that China would continue to support globalization and improve global governance at the World Economic Forum at Davos in January 2017, Trump did not participate in that important forum. To Trump, globalization is a problem, not a solution, for America.

Does globalization have a negative influence on the US, or reduce its position of power in the international system? Many international observers would argue that the US is in decline. As illustrated by *Chart 1*, the share of the US economy of total world GDP, estimated by the International Monetary Fund (red line), declined from 31.6% in 2001 to 21.2% in 2011, and increased again to 24.7% in 2016. While a decline in power was true for the Obama administration, it is not so serious for the Trump administration. Furthermore, it is quite clear that the shrinking US share of world GDP has been exaggerated. According to international macroeconomic data calculated by the US Department of Agriculture (USDA), the US share of world GDP just decreased from 23.5% in 1980 to 22.3% in 2016 (blue line). Many important figures in the US, such as strategist Zbigniew Brzezinski and China hand David M. Lampton, use the data from the USDA to measure US economic power. Thus, the power gap between the US and China has not been reduced so quickly. The problem for the US is that President Trump does not believe experts’ judgement.

The green line in *Chart 1* is the US military’s expenditure share of total world military expenditure, calculated by the Stockholm International Peace Research Institute (IPRI). It is also very clear that the share of US military spending increased from the early 1990s to the early 2010s. The share only decreased from 42.0% in 2012 to 36.3% in 2016, which is still higher than the level in 2005. We need to emphasize again that the share of GDP and military spending in 2016 is higher than those in 2015. It is difficult to say that the power

CHART 1
International power position of the US



Source: IMF, USDA and IPRI

position of the US has declined compared to the 1980s. Perhaps the problem might lie closer to home. In fact, Richard N. Haass, president of the Council of Foreign Relations, a think tank in Washington, DC, has already argued in his book *Foreign Policy Begins at Home* (2012) that the biggest threat to America's security and prosperity comes not from abroad but from within.

Rediscovering America

Nearly all Asian nations have paid attention to the slogan "America First" used by Trump. Most of their concerns are about the meaning of "First" rather than "America". The popular wisdom is that Trump will put America first rather than international interests. For all countries, it is natural to put national interests first, and so it is also reasonable for the US. That was the real meaning when Trump said "we will respect your independence and your sovereignty" at the APEC Summit.

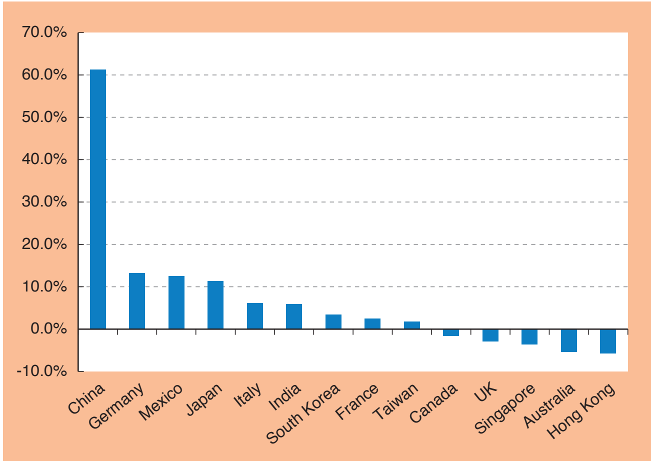
What we ignore in the story behind the term "America First" is what is "America"? The late Samuel P. Huntington, a former political scientist at Harvard University, in his book *Who Are We?: The Challenges to America's National Identity* (2004) warns the US elites that the challenges to America are essentially cultural ones. According to his prediction, the large-scale immigration from Latin America will divide the US into two peoples, two cultures, and two languages. To some extent, the outcome of the 2016 presidential election gives some weight to this prophecy, as it has been broadly argued that Trump won the election largely with the support of non-college whites living in suburbs and rural areas.

While Hillary Clinton received about 2.9 million more votes nationwide, a margin of 2.1% over the total won by Trump in the presidential election, Trump won 30 states with a total of 306 electors. The three crucial states where the margin of victory was under 1% were Michigan, Pennsylvania and Wisconsin. It is safe to say that the "silent minority" in these three states in the Rust Belt determined Trump's victory. Some observers have even argued that Trump is the first American "white president" as he understands his main support is the "white working class" and attempts to defend the interests of this group. Some 82% of voters who supported Trump last year would vote for him again if they had to do it over, according to a POLITICO/Morning Consult poll conducted on the eve of the first anniversary of the 2016 presidential election. This phenomenon is new for political elites in the US and also new for the rest of world.

Some argue that the US is one place with two states. The US we used to accept is the country controlled by the winners of globalization. As a successful businessman, Trump is one of these winners. However, we ignore the powerful majority of the losers in that process. Many experts have noticed that the income gap between rich and poor has accelerated since the 1980s with the rise of the service economy, especially the overfinancing economy in the US. The white losers wish that Trump can help them escape from the income growth stagnation trap. For them, part of the solution is to retreat from globalization, considering it to be the main culprit in increasing income inequality. And Trump stood with the white losers.

CHART 2

Distribution of total US trade deficit (2016)



Source: BEA, US Department of Commerce

It is obvious that the origins of his foreign trade policy lie in domestic issues.

Trading Partners

The trade strategy implemented by Trump is a bilateral one, not multilateral. Although his Asia trip helped him win great deals, it is still too early to say if it will help the American white working class. We need to examine the structure and pattern of US international economic relations with Asian nations.

The basic model in Trump's mind is that Asian countries account for the major US trade deficits. According to data released by the Bureau of Economic Analysis at the US Department of Commerce, as illustrated by *Chart 2*, China, Japan, India and South Korea accounted for 61.2%, 11.3%, 5.9% and 3.5% of US total trade deficits respectively, in 2016. *Chart 2* combines goods trade with services trade. China is the largest services products importer for the US. In 2016, the US goods trade deficit with China was $347.2 billion, plus a services trade surplus with China of $38 billion. The total US trade deficit with China was reduced to $309.3 billion. Combined with the trade in services, the US trade deficit with China has generally declined, but the total trade deficit with China accounts for a substantive increase in the overall US trade deficit. In 2016, the trade deficit with China accounted for 46.2% of the overall US goods trade deficit.

The US is very competitive in services exports. The total goods exports of the US reached $1.5 trillion in 2016, while services exports totaled $752.3 billion. Services exports accounted for 34.1% of total US exports. On the import side, US services imports reached $504.7 billion in 2016, and accounted for 18.6% of total US imports. As a result, the US had a nearly $250 billion services trade surplus in 2016. After the 2008 financial crisis, the US trade surplus in services was significantly expanded. The trade deficit in goods sharply narrowed in 2009, but quickly stabilized after that. The total trade deficit was a lot smaller than before the crisis, at about $505 billion in 2016.

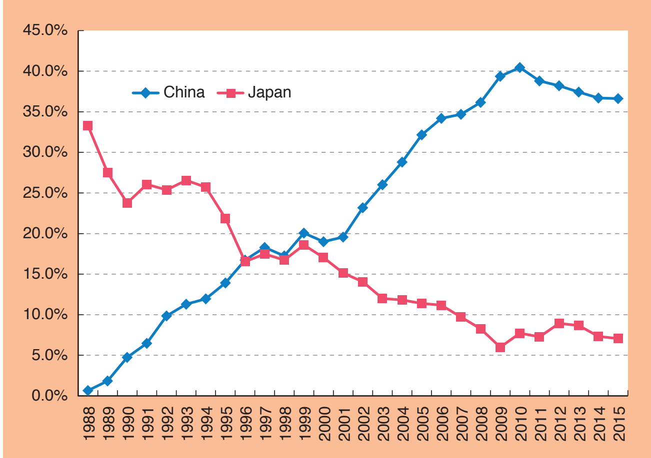
In terms of trade balance for the US, India is much more important than South Korea. That might be one reason why Trump integrated India into his "Indo-Pacific" concept. Also we can see from *Chart 2* that the US has a trade surplus with Singapore, Australia and Hong Kong. The other two countries with which the US has a trade surplus are Canada and the United Kingdom. According to the *World Trade Statistical Review 2017* released by the World Trade Organization (WTO), the most important destinations for US merchandise exports are its two partners in the North American Free Trade Agreement (NAFTA) — Canada and Mexico. In 2015, US exports to Mexico and Canada accounted for 34% of all US merchandise exports, and imports accounted for 26% of all US imports. The US ran a trade deficit of $87.7 billion in goods with its NAFTA partners in 2016. In other words, for the US, its imports from neighboring countries exceed its exports to them. It is very different from its trade relations with some Asia-Pacific economies like Singapore, Hong Kong and Australia, but similar to China's deficit position with its neighbors.

Canada's and Mexico's rising status originated in the mid-1990s with the signing of NAFTA. For example, in 1998, they surpassed East Asia as the largest export destination of goods for the US. Before then, East Asia had succeeded in maintaining that position for a decade. The rise of NAFTA is obviously the result of the US pushing to trade multilaterally. Even the 2008 international financial crisis did not cancel the first priority position of NAFTA, nor in 2010 when East Asia surpassed NAFTA to become the largest export destination again. However, the decline of NAFTA is also very clear. For the US, the new situation is that NAFTA and East Asia are the twin stars of US merchandise exports, and they have had the same share of about 28% since 2010. Unlike NAFTA, the proportion of East Asia after the 2008 international financial crisis increased by 2%. If Trump really succeeds in renegotiating NAFTA, it is reasonable to expect that US exports to its NAFTA partners will rise to the normal levels of the 1980s.

The 2% increase may be attributed to China's rise, as China's share of the US trade deficit has been rising. But that's not the case, as shown in *Chart 3*. China's share of the US commodity trade deficit peaked at 40.5% in 2010. Since then, it has declined year by year, standing at 36.6% in 2015. Therefore, it is possible to look for more complex factors to explain this inconsistency. One possible explanation is Japan's reversal of status with China, which in 1988 accounted for 33.3% of the US goods trade deficit, until it was overtaken by China in 1996, when China accounted for 16.7% of the total. The 1997 East Asian financial crisis caused further restructuring in regional divisions of labor, with China going all out to participate in regional divisions of labor in East Asia, while Japan seemed to have lost further momentum. With the adjustments in the division of labor, a new industrial division of East Asia has formed and China's position is very prominent. As a result, a growing number of people have been saying in recent years that Asian countries are increasingly relying on China in terms of trade. But such claims may ignore the complexities of economic relations and fail to grasp the essence of US influence in the region.

CHART 3

Share of US trade deficit with China & Japan



Source: RIETI Trade Industry Database 2015 (RIETI-TID 2015)

Value-added Trade & US Competitiveness

One of the important sources of American power is that it has become the major export market for many countries for many years, especially the largest market for final goods for consumers. The US is not only a global hegemon, but also one of the richest countries in the world, with a huge domestic market. This is of particular importance for East Asian countries. East Asian countries have developed an export-oriented economic strategy since the 1960s and are very dependent on external markets. This model was not completely disrupted even by the 2008 financial crisis. As the *Table* shows, in

TABLE

Destination of East Asian countries' final goods exports (as percent of total world)

	2010			2015		
	US	China	Japan	US	China	Japan
Cambodia	46.6	0.5	5.1	23.6	2.8	7.1
China	26.0	—	9.0	27.0	—	7.7
Indonesia	26.2	3.7	7.8	25.7	5.3	7.3
Japan	20.7	17.6	—	25.0	16.3	—
Malaysia	18.7	9.1	8.2	17.1	9.2	7.2
Philippines	20.4	22.9	13.5	22.3	17.9	12.6
South Korea	16.8	22.4	4.1	22.9	23.2	3.8
Singapore	15.9	9.3	5.5	11.4	10.8	6.3
Thailand	15.7	12.0	10.0	17.2	10.4	9.5
US	—	6.8	6.0	—	10.6	5.3
Vietnam	28.1	3.6	7.9	26.4	7.6	6.4

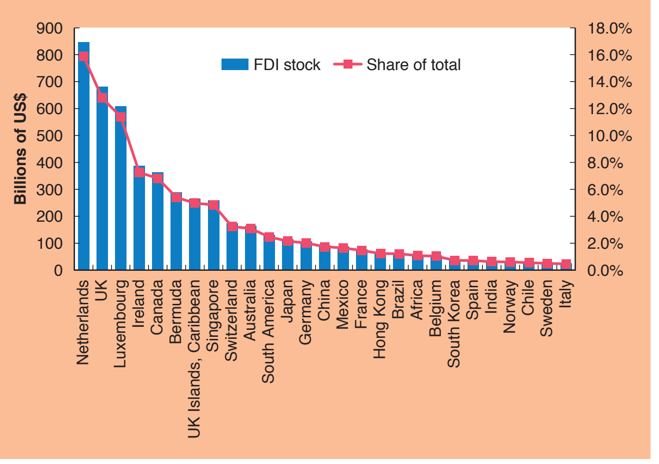
Source: RIETI Trade Industry Database 2015 (RIETI-TID 2015) addition to several countries, the US remains the largest final goods consumer market for East Asian countries. The database used in the *Table* was created by the Research Institute of Economy, Trade and Industry, Japan. The definition of "final goods" in this database is the goods used by the producer and the goods consumed by households and the government.

The trade data illustrated in the *Table* is value-added trade, which describes a statistical approach used to estimate the source of value that is added in producing goods and services for export and import. It is significantly different from the traditional way as measured by *Chart 2*. Traditionally, international trade flows are determined by the full value of an imported or exported good to the country regardless of the value added. It creates the problem of "multiple counting" of trade value. The substantial trade surplus with the US indicated by *Chart 2* is not a very accurate description of China-US trade relations. According to research conducted by Michael Sposi and Janet Koech ("Value-added data recast the US-China trade deficit", *Economic Letter*, Federal Reserve Bank of Dallas, July 2013), using a value-added approach to measure bilateral trade interdependence reduces the US-China trade imbalance by 33%.

It is clear that the US is still the largest market for final goods of Asian countries except South Korea *(Table)*. For some countries, the importance of the US is growing. For example, for Japan, Thailand and China, the proportion of their final goods exports to the US in 2015 was higher than in 2010. This is especially true for Japan, where the share of the US rose by 4.3% between 2010 and 2015. Of course, there are some countries where the proportion decreased rapidly: in Singapore, the US share dropped by 4.5% during 2010-2015, in Vietnam by 1.7%, and in Malaysia by 1.6%. The complication is that the decline in US shares has not been fully felt by China. Japan's share of final goods exports to Singapore rose from 5.5% in 2010 to 6.3% in 2015. The same is also true for Cambodia, where Japan's share grew from 5.1% in 2010 to 7.1% in 2015, while for China it rose from 0.5% in 2010 to 2.8% in 2015.

Singapore's unique trading position may be rooted in US outward foreign direct investment (FDI). According to the US Commerce Department, 60% of US foreign investment stock is located in Europe, and the Asia-Pacific region accounts for less than 16%. In other words, the economic assets of American white elites are mainly concentrated in Europe. By country, Singapore is the largest recipient of US FDI in Asia, followed by Australia, Japan and China *(Chart 4)*. Singapore, Australia and Japan combined accounted for 10.1% of US FDI stock, and account for 63.6% of the stock of FDI in the Asia-Pacific region. This may explain why Singapore and Australia have trade surpluses with the US, as the US subsidiaries in those countries would contribute to exports from them to the US. With such kind of FDI in the Asia-Pacific region, it is not easy for Trump push for US multinationals to return home. In other words, the outcome of Trump's tax reforms to discourage those US multinationals from transferring their production facilities further to overseas may mostly depend on Europe and North America.

CHART 4
Distribution of US outward FDI
(on historical-cost basis)



Source: BEA, Department of US Commerce

Network for Regional Order

In terms of economic ties, India's links with the Asia-Pacific region have been exaggerated. As shown in *Chart 4*, India absorbs only 0.6% of US outward FDI and lags behind South Korea. Moreover, the proportion of India's economic weight in Asia is only equal to that of China in the late 1980s. As a result, the main driving force behind Trump's "Indo-Pacific" idea is geopolitics, and India was considered increasingly important in formulating peace in the region.

Asia's economic development and peace depend upon the leadership of the US. It seems that Asian countries are not ready to accept a world without American leadership. One important task for Trump on his trip to Asia was to consult with the countries in the region about the North Korea issue, which is identified by many as a source of instability and threat. Asian countries still need to discuss with the US how to overcome various security challenges. Countries in this region hope that China and the US will establish stable relations, although it is not easy.

The US is still the only superpower on the international stage with its military as well as economic power. However, American leadership is increasingly dependent on its domestic political economy, and seems less concerned about the prosperity and peace of the world. If the world is entering a new era without US leadership, Asian countries themselves should take the initiative to design a new regional architecture based on regional realities, especially the economic and security situations. If we accept that a production network is a unique characteristic of East Asia, it might be possible also to construct a network for order in this region. Anarchy and hierarchy are not forward-looking choices. JS

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