

Consequences of US Policies for Asia-Pacific

By Gary Hawke



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The policies of President Donald J. Trump call the existence of “Asia-Pacific” into question.

US Economic Policies

It used to be possible to argue that the greatest threat to international security was the economic illiteracy of the US Congress. The US administration led by President Trump has surpassed it.

The stupidity of current US international economic policy is hard to credit. First-year economics students who treat bilateral trade balances as an appropriate metric for economic success would be failed. But current US trade policy goes further. Not only should bilateral trade not be unbalanced — or at least not negative as viewed from the United States — but also every condition of trade should be equalized. The tariffs on US exports of any product, such as cars, should never be more than US tariffs on the same product. The rules of origin applied to any US export should never be more onerous than the rules of origin applied to imports to the US. Gary Hufbauer of the Peterson Institute of International Economics has characterised this as “mirror reciprocity”. It so obviously offends the basis of trade, the use of exchange to expand the consumption possibilities of both parties beyond what they could achieve in isolation, that it would be laughed at if proposed for the playground games of children. President Trump talks of trade rooted in “fairness and reciprocity”; he seeks to constrain trade with arbitrary rules.

Challenges to the region go deeper. US trade policy departs from the principles which have governed the Asia-Pacific region since at least the foundation of APEC in 1989. APEC was built on the principle that any division between the “west Pacific” and “east Pacific”, between East Asia and the Americas, should be avoided. Economic integration was sought such that it satisfied Asian preferences for working with agreed objectives and peer review of progress by individual participants and North Atlantic — or Anglo-Saxon, European and Latin American — preferences for detailed agreements with regular monitoring of conformance. The US need for “reciprocity” was understood, but it was to be achieved by consultation and consensus.

Furthermore, the underlying principle was “Open Regionalism”. Economic integration was sought by lowering barriers among the parties to the agreement without increasing barriers to non-members. Compatibility with multilateral trade rules, which were initially those of GATT and are now the mechanisms managed by the WTO, was indispensable. Multilateralism should not be disturbed. Furthermore, it

was understood that the interests of each participating economy did not depend on what other parties did; the point of multilateral agreements and institutions was mostly to manage conflicts of interest within each economy. The important process was “concerted unilateralism”. All of that remains valid now that the focus is less tariffs and more regulatory barriers to economic integration.

The APEC vision was (and is) diametrically opposed to the US policies espoused by Trump. The president told the CEO Summit at the APEC Economic Leaders’ Meeting in Vietnam, “I will 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. What we will no longer do is enter into large agreements that tie our hands, surrender our sovereignty, and make meaningful enforcement practically impossible.” That is a denunciation of the APEC process.

The president pursues a simple illogic. The US is the most efficient producer of everything; in the absence of cheating nobody could sell more to the US than the US sells to them, and therefore any US bilateral deficit reveals some form of unfair trade practice. In the speech already quoted, the president said, “We adhered to WTO principles on protecting intellectual property and ensuring fair and equal market access. They engaged in product dumping, subsidized goods, currency manipulation, and predatory industrial policies” and “We will no longer tolerate the audacious theft of intellectual property.

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(Front L to R) Chinese President Xi Jinping, Vietnamese President Tran Dai Quang, Indonesian President Joko Widodo, Japanese Prime Minister Shinzo Abe, (back L to R) Philippine President Rodrigo Duterte, Russian President Vladimir Putin, US President Donald Trump and Thai Prime Minister Prayut Chan-O-cha pose for a “family photo” during the Asia-Pacific Economic Cooperation (APEC) leaders’ summit in the central Vietnamese city of Da Nang on Nov. 11, 2017.

We will confront the destructive practices of forcing businesses to surrender their technology to the state, and forcing them into joint ventures in exchange for market access. We will address the massive subsidizing of industries through colossal state-owned enterprises that put private competitors out of business — happening all the time. We will not remain silent as American companies are targeted by state-affiliated actors for economic gain, whether through cyberattacks, corporate espionage, or other anti-competitive practices.”

The delusions of a president are worrying, but even more so is that the belief that everybody but the US cheats is widespread in Washington and other US commentary. Most of it amounts to an assertion that US practice is always right, and any departure from US practice is a breach of international rules.

Compatibility with international trade rules can be tested only through the WTO Dispute Resolution System. The US wins some cases against other parties but it also loses some. And other countries win cases, not all cases, brought against the US. It certainly cannot be assumed that international rules are the same as US rules, let alone US preferences.

The most worrying of all aspects of current US trade policy is its undermining of the WTO. The Appellate Body is handicapped by vacancies in its membership because the US uses its ability to veto nominations. Even before the current administration, the US government made little attempt to disguise its refusal to allow an extension of the term of a Korean member of the Appellate Body on the basis that it did not like his decisions. The president says “we have not been treated fairly by the World Trade Organization” but the current US trade representative has said openly that the longevity of the Dispute Resolution System depends on the compatibility of its decisions with his interpretation of the requirements of the US constitution.

US trade policies challenge how economic integration has proceeded in the Asia-Pacific region. Chinese policy, on the other hand, seeks to use existing institutions to its advantage. The rules of the international economic system are necessarily dynamic. Initial concern with tariffs was supplemented by rules about subsidies, government procurement, and sanitary and phytosanitary regulations as removal of tariffs focused attention on other barriers to trade or as business practices used opportunities created by cross-border trade. Current concern with regulation of investment or movement of natural persons simply continues the same process. But China is now a much more prominent participant in world trade and it has to be accorded equality as rules are formulated about electronic commerce or management of intellectual property, or any of the current issues which have been brought to prominence. The international rules-based system has to be negotiated, not assumed to be current US practice.

China poses another challenge through the “One Belt, One Road” initiative. The initiative looks westward, to the interior and west of China, and then through South and Central Asia to Europe and Africa. It does not look to the Pacific. Of course, this initiative also creates uncertainties. Will it lead to a change in the environmental standards applied to major construction works? Will some governments make bad decisions about financing agreements? Such issues are an

inevitable part of any major initiative — the problem is management of change, not something unique to “One Belt, One Road”. It would be hard to argue that anything was currently more unpredictable than the stance of the US government.

While the initiative looks westward from Beijing, the Chinese government has been receptive to suggestions that the Pacific region could participate in it, and within APEC, China has continued to promote the Free Trade Area of the Asia-Pacific. The China-US bilateral relationship will remain important for the foreseeable future, but “One Belt, One Road” increases the possibility that the Asia-Pacific region will not be central to global economic strategy for all time.

Asia-Pacific is a geographic expression but it became an economic entity with the pursuit of economic integration and community building through Open Regionalism. India was not part of that process although its “Act East” policy is now building bridges towards it. “Indo-Pacific” has a lengthy history in non-economic spheres. In maritime security, for example, it was never sensible to exclude the Malacca Straits or to separate the Indian and Pacific Oceans. So the ASEAN Regional Forum and its counterpart, the Council for Security Cooperation in Asia-Pacific, always extended to (and beyond) India. Simply using “Indo-Pacific” in an economic context does not change geography or promote reconciliation of Open Regionalism with Indian policy.

US Security Policies

Students of strategic studies and international relations often complain that too much attention is paid to economic affairs and not enough to all the other aspects of foreign policy. However, economics is a technique for thinking, not a discrete section of life. Economic analysis is concerned with the consequences of human interactions, especially issues of exchange. All influences on exchange are part of economic analysis.

East and Southeast Asia is a region of community-building. Former colonial territories continue to build societies which can manage disasters and humanitarian problems and resolve internal disputes; China builds with confidence after a “century of humiliation”; Japan pioneers management of an ageing and declining population as it pioneered demonstrating that economic growth was not a European monopoly; and Thailand continues to be idiosyncratic in relation to all these experiences. The countries of East and Southeast Asia have devised mechanisms to manage relations among themselves, with an emphasis on learning from common experiences and from one another. They do not need lessons from outside on how to ensure their security.

During the Trump administration, the US has approached Asia-Pacific security as a component of global security. In the years after the break-up of the Soviet Union, the US became accustomed to being the sole superpower. “American exceptionalism” was strongly reinforced. Its approach now is global in reach but through groups which may be multilateral, as in arrangements among the US, Japan, Australia and India, or through bilateral alliances. But it is always through US dominance.

American rhetoric about a “rules-based system” is used as a weapon against a non-existent target. The desirability of a “rules-based system” is undoubted; what is in question is the optimal specification and management of rules.

Many countries have domestic debate about “law and order”. The appropriate response is usually to determine when and how the law should be changed so that order can most readily be promoted. The international context is different, not because there is a unique set of rules which have simply to be obeyed but because determining and changing the rules is more complex. Whereas national governments have a monopoly of lawful coercion within their borders, there is very limited force available to enforce international law even when its provisions are not contested. In the case of international law, the concept of “legally binding” is more like an ethical norm than an enforceable rule.

Members of the United Nations have ceded to the Security Council a limited capacity to authorise the use of force. It is often frustrating that the Security Council is unable to act because of a veto (or even the prospect of a veto) cast by one of the permanent members. But any nation committed to a rules-based system would recognise that the only available strategy is to work for a change in the rules. The US is somewhat handicapped in that regard by the way in which it prevents changing the rules of the World Bank and IMF so as to make their governance more in accord with the world of 2017 rather than that of 1945.

For the Asia-Pacific region, the implications are that issues like the possession of nuclear weapons by North Korea or competing claims in the South China Seas are unlikely to be resolved by simple application of international rules.

Sometimes, an international agreement has an in-built capacity to implement its rules. The WTO is in that position. Its members agree to submit disputes to the Dispute Resolution System and the organization can authorize counteracting changes in the obligations of aggrieved members. This is not a complete solution because maintaining the offending measures and authorized retaliation imposes costs on all parties but it certainly exerts some disciplines and gives some weight to the idea of “international rules”.

There is an echo of this in the ability of the World Bank, regional development banks such as the Asian Development Bank or the Inter-American Bank, and the IMF to respond to breaches of their agreements by refusing access to the facilities. But it is a much weaker sanction than typically exists in domestic courts.

The limitations of international law and of a “rules-based international” system explain frustration, but do not justify attempts to impose national solutions as though they were international. The modern international “liberal” or “open” international system can be traced to the years immediately after World War II and the US is rightly credited with a major part in its establishment. It was not a simple process. One of the principal objectives of the US was to destroy the system of “British preferential tariffs” which were thought to disadvantage US trade and promotion of US exports always competed with altruistic promotion of international trade. The rules of the IMF were initially determined above all by what could secure approval by

the US Congress, and the first 25 years of the IMF can be described as a gradual evolution from what the US would permit to what some other participants in 1945 advocated.

Nevertheless, the most disturbing aspect of current US policy is the way it undermines the international order which has evolved since 1945. The liberal, open international order is indeed under threat, but not from China or any other emerging economy; it is under siege from the US.

The challenge to the disputes resolution system of the WTO has already been described. The challenge to the UN is less often identified other than in efforts to constrain its funding. But it is even more noticeable in American assimilation of UN sanctions with American sanctions. China is asked to support sanctions against North Korea; China acknowledges its obligations to implement sanctions approved by the Security Council, but it is expected to collaborate also in US rules.

Former President Bill Clinton diagnosed the problem in 2002: “The US has two choices about how we use the great and overwhelming military and economic power we now possess. We can try to use it to stay top dog on the global block in perpetuity. Or we can use it to try to create a world in which we will be comfortable living when we are no longer top dog on the global block.” (Gareth Evans, *Incorrigible Optimist: A Political Memoir* (Melbourne: MUP, 2017), pp, 176-7).

Historians might notice some similarity with the United Kingdom from the “return to gold” in 1925 to the Suez affair in 1956, and to earlier episodes in French and Spanish history; the problem is with “top dogs” not with the US. Nevertheless, a major challenge to the future of the Asia-Pacific region is the challenge posed by American foreign policy to the international order.

Regional Responses

In their book *Africa and the Victorians: The Official Mind of Imperialism* (London and Basingstoke: Macmillan, 1981), Ronald Robinson and John Gallagher noted how people and events on the periphery had an impact on the history of the British Empire that was as influential as the intentions and actions of those at the center of the empire. Similarly the significance of the current interaction between the US and the Asia-Pacific region depends as much on responses in the region as on actions or inaction in Washington.

Most important are responses in South Korea, Taiwan and Japan. South Korea is at the center of both economic and security debates. It rightly seeks politely and diplomatically to distance itself from ridiculous assertions about the Korea-US FTA (KORUS) and to deflect attention to the sensible project of updating the agreement to the different modern world, especially to the contemporary era of digital trade. It also seeks to reconcile engagement with North Korea with a firm response to any suggestions of use of force by Pyongyang. It seems even to have managed to accommodate the deployment of a THAAD anti-missile system in coming to terms with China’s disapproval.

Taiwan cannot escape from its history of claiming until at least the 1970s that the “Republic of China” dating from 1912 persisted into the

modern state of Taiwan or Chinese Taipei, while China insists that Taiwan is a renegade province. The simple progression of time means that the Taiwanese population grows increasingly distinctive but it does not change belief that maintaining the territorial integrity of China is part of ending the “century of humiliation”. Direct confrontation of these alternative views of cross-Straits relations is unlikely to be fruitful. The future depends on finding some middle ground between the rhetoric of sovereignty and the desirability of international space, allowing Taiwan to participate in regional and global affairs. It is a problem not unique to Taiwan. The same issue is most prominent in Catalonia and Kurdistan but there are many other examples where one side claims distinctiveness while another asserts territorial integrity. The struggle may be intense, but it is difficult to refute the proposition that the international response is essentially that in the absence of a crime against humanity, the right of self-determination has to be reconciled with the right to maintain territorial integrity, and it is only by agreement that a new state can find acceptance in the international community.

US policy is consistent with this analysis. There are always US voices, often informed by misguided memories of American missions in China, which advocate trade and other international diplomacy likely to disturb the status quo but they will not prevail if the US continues to seek leadership in an international community.

The biggest challenge is to Japan. It needs a strategy which preserves its leading economic role in the face of an ageing and declining population. Until recently, this seemed likely to center on developing technology and services which provide for the needs of its own population and give it a leading role in the Asian economy. While the Asia-Pacific economy would remain important, the US alliance would loom somewhat less highly in Japanese concerns. Recently, this vision has been questioned. As China assumed more Asian leadership, Japanese doubts about the transparency of Chinese government and about the consequent opportunities for mutually beneficial interactions led Japan to retreat into closer relations with the US. The Japanese revival of the TPP in TPP-11 is guided by an effort to constrain China; Japanese commentators are inclined to say that China cannot be a

member of the TPP because its government is too prominent in the Chinese economy, a very different proposition from when New Zealand and Australian trade ministers told a Washington conference that they wanted no part in a TPP envisaged as excluding China. TPP-11 as currently constituted looks much more like the original TPP, a stepping stone towards an FTAAP including China, than like a mechanism for preventing Chinese pre-eminence. Its future depends on remaining so.

China itself needs to do nothing but continue its economic progress and maintain social and political cohesion whether or not looking more like a “Western democracy”. It will decide the extent to which it focuses on the Asia-Pacific region or turns its attention primarily to Central and South Asia, Europe and Africa.

Conclusion

The Asia-Pacific region has always figured in surveys of current world security issues. Cross-straits relations have been a staple for nearly 70 years. Currently, more attention is being given to North Korea and the South China Sea.

While Americans are not unreasonable in seeing a changed strategic outlook through a new possible source of nuclear attack on the US mainland, there has been no change in the strategic situation of most of the world. Nor has there been any change in the centerpiece of the appropriate international response, the Non-Proliferation Treaty and its balancing of progressive disarmament by nuclear states and disclaiming of nuclear weapons by other parties to the agreement. Asserting a new right to determine who can control nuclear weapons by an unspecified but US-led authority is not constructive.

Similarly, the South China Sea issues are complex. There are many issues but at the core is the allocation of rights to resources. Drawing lines on the sea is not likely to be conclusive, especially for oil and gas which are mobile, and nor is simple assertion of freedom of navigation when nobody wishes to frustrate trade. Commercial vessels are unlikely to navigate near rocks and reefs. The most positive approach is to utilize the ASEAN process of agreeing on objectives and sharing experiences on progress towards those objectives.

Uncertainty about change is inevitable. Outdated institutions do not provide a solution. Mutual trust is the ultimate objective. It is not available immediately but must be worked for. Managing disagreement in the security area is part of the community building which is the ultimate aim of economic cooperation. Current US policy, both the global and multilateral character of security policy and the focus on bilateral “deals” in trade policy, is not consistent with Asia-Pacific objectives. Asia has to proceed without US participation until US policies are changed.

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Photo: AFP-JJII

This file photo taken on Nov. 9, 2017 show US President Donald Trump (L) shaking hands with Chinese President Xi Jinping at the end of a press conference at the Great Hall of the People in Beijing.

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