

# Implications of Donald Trump's Protectionist Policies for ASEAN



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## Brief Overview of the US & ASEAN Economies

The strong economic ties between the United States and the Association of Southeast Asian Nations (ASEAN) affirm the continuing benefits that these two economies have been gaining from their close partnership. Being the third-largest economy in Asia and the fifth-largest in the world, ASEAN serves not only as a significant trading partner for the US, but also a strategic partner in exerting influence across Asia. In 2016, the average real ASEAN GDP growth stood at 4.5%, which is equivalent to about \$2.55 trillion at current prices. A liberal trading and financial environment has provided the basic infrastructure for the US-ASEAN trade and economic relationship to flourish in the past decades. This was bolstered by regional production networks, a Japanese invention, which unbundled and distributed the production process and created employment across ASEAN.

For this year, Cambodia, Laos, Myanmar and the Philippines are seen to further drive ASEAN growth as they are forecasted to be part of the top 10 fastest-growing economies in the world. This growth is backed by strong private consumption, manufacturing growth, private construction, and higher infrastructure spending, particularly in the Philippines. Despite the growth disparities in individual member states, ASEAN is expected to remain an economic

powerhouse as shown by the GDP growth predictions of the International Monetary Fund (IMF) for the period 2017 to 2021 (*Table 1*).

Meanwhile, the US experienced a slowdown in 2016 with 1.5% growth from 2.9% in 2015. This year, the Asian Development Bank (ADB) and the IMF forecast the US economy to rebound, supported by robust private consumption and investment resulting from strong business and consumer confidence (*Asian Development Outlook 2017 Update: Sustaining Development Through Public-Private Partnership*, ADB; *World Economic Outlook, October 2017, Seeking Sustainable Growth: Short-Term Recovery, Long-Term Challenges*, IMF). *Chart 1* shows the comparative economic performances of various countries from 1980 to 2016 with predictions from 2017 to 2022.

## Trump's Alarming Protectionist Stance

However, recent pronouncements by US President Donald Trump seem to threaten the continuing existence of the liberal global trading and financial environment that has formed a fundamental cornerstone of the US-ASEAN relationship. During the 2016 election campaign, Trump made his way to the White House with a powerful campaign slogan — “Make America Great Again” — that resonated

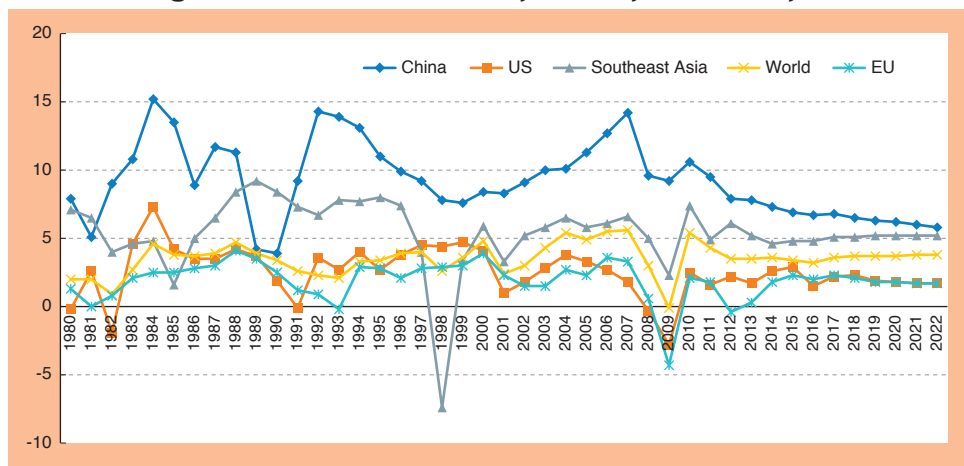
TABLE 1

## ASEAN real GDP growth, 2012-2016 & 2017-2021 projections

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Ave. (07-11)	Ave. (12-16)	Ave. (17-21)
Brunei	0.9	-2.1	-2.5	-0.4	-2.5	-1.3	0.6	8.7	8.9	11.2	0.5	-1.3	5.6
Cambodia	7.3	7.4	7.1	7.2	7.0	6.9	6.8	6.8	6.5	6.3	6.0	7.2	6.7
Indonesia	6.0	5.6	5.0	4.9	5.0	5.2	5.3	5.5	5.5	5.5	6.2	5.3	5.4
Laos	7.8	8.0	7.6	7.3	7.0	6.9	6.9	7.1	7.1	7.0	7.8	7.5	7.0
Malaysia	5.5	4.7	6.0	5.0	4.2	5.4	4.8	4.8	4.9	4.9	4.5	5.1	5.0
Myanmar	7.3	8.4	8.0	7.0	6.1	7.2	7.6	7.5	7.5	7.5	6.3	7.4	7.5
Philippines	6.7	7.1	6.1	6.1	6.9	6.6	6.7	6.8	6.8	6.8	4.6	6.6	6.7
Singapore	3.9	5.0	3.6	1.9	2.0	2.5	2.6	2.6	2.6	2.6	6.3	3.3	2.6
Thailand	7.2	2.7	0.9	2.9	3.2	3.7	3.5	3.4	3.1	3.0	2.9	3.4	3.3
Vietnam	5.2	5.4	6.0	6.7	6.2	6.3	6.3	6.2	6.2	6.2	6.2	5.9	6.2
ASEAN (Average)	5.8	5.2	4.8	4.9	4.5	4.9	5.1	5.9	5.9	6.1	5.1	5.0	5.6

Source: October 2017, IMF Data (<http://www.imf.org/external/datamapper>)

CHART 1

**Real GDP growth rate of ASEAN, China, EU & US, 1980-2022**

Note: Southeast Asia includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, East Timor, Vietnam

Source: Real GDP Growth: Annual Percent Change, International Monetary Fund (2017b, October)

well with American voters. Trump has long lamented the loss of American jobs to other countries, mainly China, as US manufacturers relocated to countries with low labor costs. He also decried what he perceives as the collusion of past American leaders with their counterparts in the trading partner countries in producing obnoxious trade agreements such as the North American Free Trade Agreement (NAFTA), and recently in attempting to lead the establishment of the Trans-Pacific Partnership (TPP). These unprecedented perceptions have caused him to issue statements about cutting off the US from such trade agreements and increasing tariffs on imported goods ranging from 5% to 45% (America and the Global Economy: How Donald Trump Thinks about Trade, *The Economist*, Nov. 9, 2017).

Among the boldest economic moves undertaken by the Trump administration was the withdrawal of the US from the negotiations on the TPP on Jan. 23, 2017. The TPP, once ratified by the initial set of participating countries, namely Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US, and Vietnam, would be the largest, most ambitious and comprehensive regional free trade agreement in the modern world. The TPP was predicted to drive GDP growth by 1.1% in 2030 in the 12 countries that had initially expressed willingness to join; raise individual member countries' trade growth by 11% by 2030; and increase the regional trade growth which has slowed down during 2010 to 2014 (Topical Issue: Potential Macroeconomic Implication of the Trans-Pacific Partnership, in *Global Economic Prospects*, World Bank, 2016).

Overall, the putative TPP bloc represents 40% of the global economy and one-fourth of world trade. The envisaged multi-country trade agreement is expected to spur greater growth across member countries through a strong rules-based trading system that will facilitate trade, investment and capital flows. It will strengthen global value chains that distribute job and growth opportunities.

The past US leadership seems to have recognized the TPP's benefits to the US. It is expected to level the playing field for American workers and business; eliminate about 18,000 taxes on

"Made in America" products, owing to tariffs; and grow further the exports market of the US (*The Trans-Pacific Partnership: Overall U.S. Benefits*, Office of the United States Trade Representative). Supporters believe that it will solidify the liberal trade and financial environment that has benefited trading nations the world over. In addition, it will lend energy to American political influence that has been diminished by the unresolved Iraqi and Afghan wars and the deep global recession triggered by the American sub-prime mortgage crisis. With the TPP in its hands, the US could somehow counter China's growing

economic and political influence that is expressed especially through its "One Belt, One Road" initiative.

Asia-Pacific economies believe in the efficacy of a strong rules-based trading system and the benefits (and risks, of course) of closer integration of markets. However, President Trump seems to see otherwise. He seems to believe that the US will lose in this regional free trade agreement and has opted to walk away from it, signifying his preference for bilateral talks with America's trading partners.

In the past, the US and ASEAN had long been good partners in promoting sustainable growth, prosperity, regional security and cooperation. During the time of former President Barack Obama, several strategies strengthened the US relationship with ASEAN. They included encouraging entrepreneurship and innovation through initiatives that would facilitate trade and investments inflows, helping in the integration of the ASEAN member states, and encouraging ASEAN states to join the TPP which was deemed to be beneficial to all participants. Ironically, the US, the postwar exponent of a liberal, rules-based trading system, which championed the TPP, has withdrawn its support and membership and made noises about adopting protectionist policies.

Given this disturbing trend, it is worthwhile revisiting the current trade agreements that are in place to appreciate what is at stake if the retreat to protectionism becomes the order of the day.

Currently, the US has free trade agreements (FTAs) with 20 countries, of which only one is an ASEAN member state and Asian country, i.e. Singapore. To expand trade in goods and services under the framework of transparency and progressive liberalization, the US formalized its economic relationship with Singapore in 2003. Not long after, the US made a trade pact with ASEAN through a Trade and Investment Framework Arrangement (TIFA) signed on Aug. 25, 2006. A TIFA, a nonbinding agreement, intends to lay out strategic frameworks and principles for dialogues in relation to various trade and investment issues between the US and its partner countries. Usually, TIFAs are established with countries that are in the early

stages of trade liberalization. Should the TIFA reach a certain level of trade openness, the countries may then negotiate an FTA.

In July 2017, the US conducted its annual TIFA meeting with the Philippines and Malaysia to discuss outstanding issues and measures to promote further trade. The series of bilateral meetings that the Trump administration is currently advancing in the Asia-Pacific region is a testament to the preferred US strategy of more bilateral engagements. The real challenge for ASEAN lies in maximizing these TIFAs to further strengthen its trade relationship and economic cooperation with the US. However, this approach is inferior to a multilateral FTA such as the TPP. The TPP provides a potentially better pathway to stronger and more stable trade, finance and investment relationships among participating countries.

### Protectionism: We Only Hurt Each Other

It is very important to examine how Trump's protectionist announcements could possibly affect the US-ASEAN relationship. There are deep socioeconomic implications. Protectionism could trigger trade wars or misplaced nationalism in some countries in a bid to protect or insulate domestic industries and workers. However, soon everybody in the trading table realizes that the cost of such distortions and rising unemployment far exceed the supposed benefits of inward-looking policies.

#### 1. Trade in Manufacturing and Services

The lingering effects of the global financial crisis can still be seen in the downward trend of the trade growth of ASEAN, both in terms of imports and exports with partner countries. Since 2010, trade growth has been declining although in recent years a recovery seems to be in sight. In 2016, the total merchandise trade balance of ASEAN reached \$2.24 trillion, wherein the imports and exports were \$1.09 trillion and \$1.15 trillion, respectively (Chart 2).

However, rising wages and labor costs are driving China to restructure away from low-cost manufactures toward more sophisticated products and a more consumer-driven economy.

ASEAN could benefit from this together with stronger trade ties with the US. However, protectionist policies in the latter will definitely dampen ASEAN growth.

Chart 3 shows the percentage contribution of the US as an ASEAN trading partner. Since 2011, the share of exports has been increasing from 4.5% to 6.1%. However, in terms of imports, ASEAN seems to be shifting away from the US in favor of China. Intra-ASEAN trade, overall, remains strong.

Chart 4 shows the data presented by the US Census Bureau. Notably, the US trade balance with China has experienced a sharp decline since 2002. As for ASEAN, it remains stable albeit negative.

Table 2 shows the top ASEAN products that are traded with the US. In terms of both exports and imports, the top products that are traded are electrical machinery and equipment (equivalent to \$52.4 billion) and nuclear reactors, boilers, machinery and mechanical appliances (equivalent to \$35.6 billion).

Examining the status of trade in services between the two economies, the OECD data shows that the percentage share of ASEAN trade with the US seems to be quite small relative to the other partners of the US. In 2014, Singapore had the highest trading share among the ASEAN member states. These figures, which have remained small in the past years, could even become insignificant if the US effectively shuts off US firms from locating in ASEAN and increases tariff and non-tariff barriers against ASEAN exports of services (Table 3 & 4).

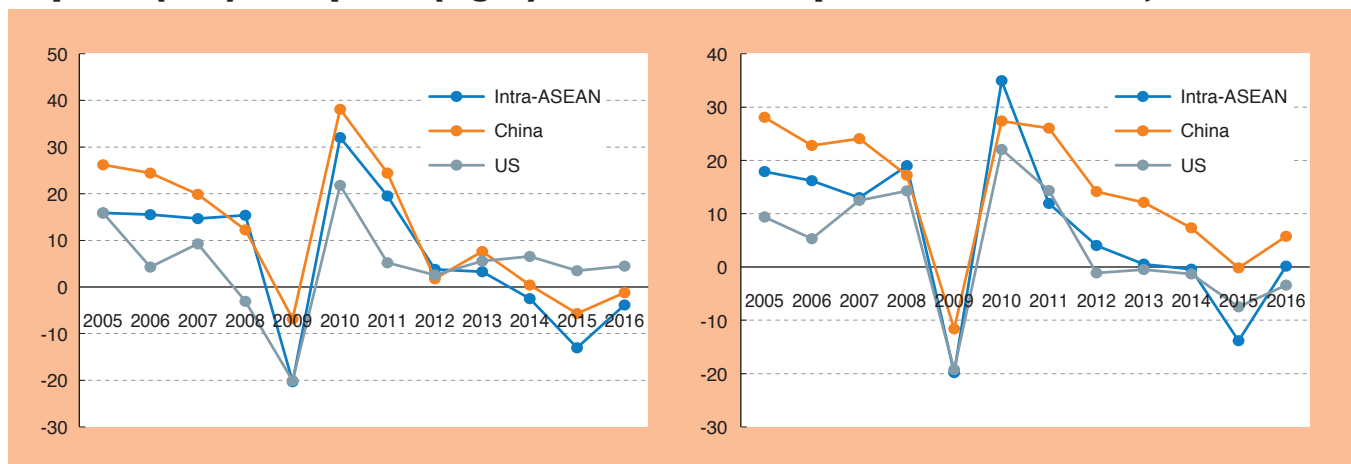
#### 2. Disintegrated Global Value Chains / Regional Production Networks

Global value chains (GVCs) serve as the backbone of the world economy. With threats of protectionist policies, these value chains would be interrupted, if not disintegrated, which would consequently impose serious costs on both producers and consumers across economies, especially those that largely depend on trade.

In their OECD study *Mapping Global Value Chains* (2013), Koen De Backer and Sebastien Miroudot emphasized that effective GVCs need policy changes that consider the entire supply chain and not

CHART 2

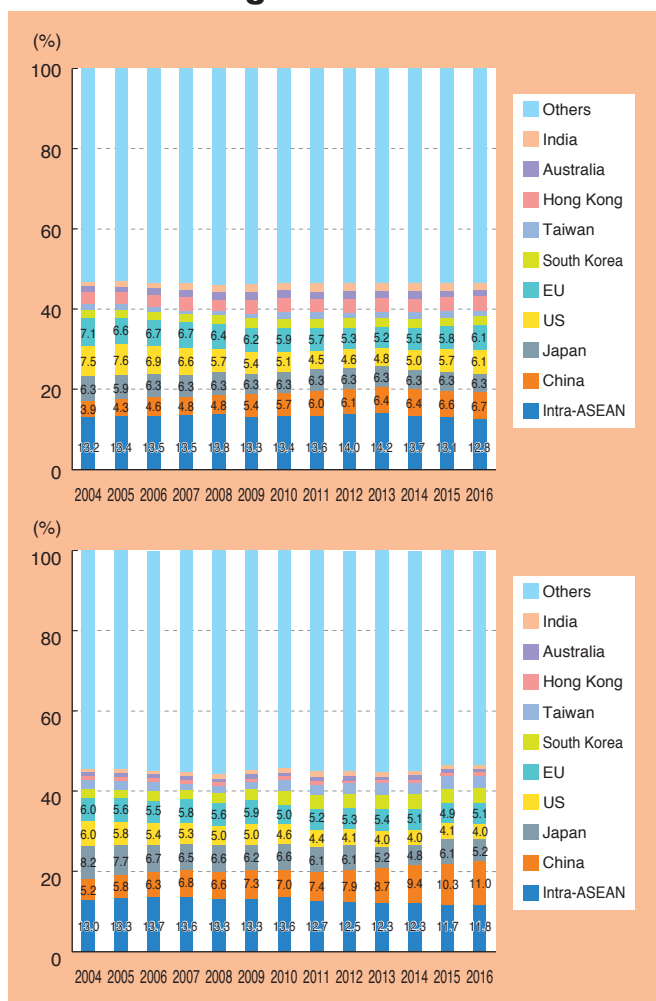
### Exports (left) & imports (right) of ASEAN with partner economies, 2007-2016



Source: ASEANStats Database

CHART 3

## Exports & imports share to total, merchandise goods



Source: ASEANStats Database

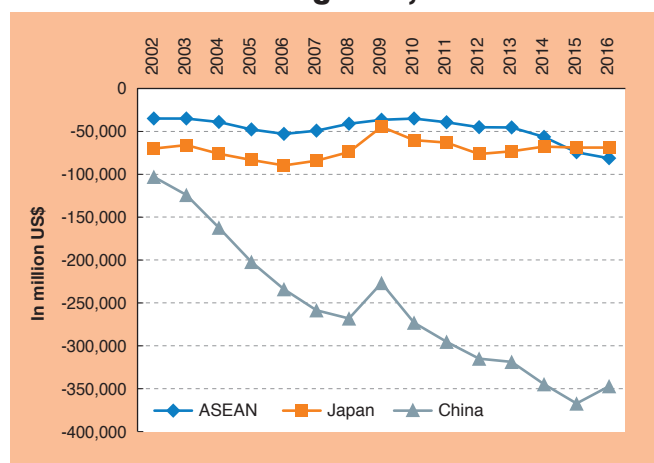
piecemeal approaches. This would be difficult to achieve when countries are engaged in several different bilateral FTAs which create the well-known “noodle bowl” effect. Multi-country regional FTAs could immensely mitigate, if not undo, this noodle-bowl effect, thereby causing freer flows of fresh financial capital and investments for growth and job expansion. Stronger and more efficient GVCs will help reduce costs and allow countries to focus on their respective dynamic comparative advantage.

According to the WTO and IDE-JETRO (*Trade patterns and global value chains in East Asia: From trade in goods to trade in tasks*, 2011), the foundations or the factors which create GVCs include the following: 1) international demand; 2) development of infrastructure and trade policy; 3) industrial processing zones; and 4) offshoring-outsourcing strategies and FDI. With the protectionist and isolationist policies of the current US administration, the basic triggers of GVCs could be in jeopardy.

Based on an OECD report of October 2015 (“Trade in Value Added: United States”, [https://www.oecd.org/sti/ind/tiva/CN\\_2015\\_](https://www.oecd.org/sti/ind/tiva/CN_2015_)

CHART 4

## US trade balance with partner countries in all merchandise goods, 2002-2016



Note: ASEAN includes Singapore, Brunei, Laos, the Philippines, Indonesia, Thailand, Malaysia, and Vietnam only.

Source: Foreign Trade Division, US Census Bureau

[UnitedStates.pdf](#)), data from the OECD-WTO Trade in Value Added (TiVA: “Trade in value added is a statistical approach that estimates the sources (by country and industry) of the value that is added in the production of goods and services for exports”) show that the foreign content of exports from the US significantly increased from 11.5% in 2009 to 15% in 2011. This indicates how closely integrated the US and its trading partners have been and erecting high tariff walls and resorting to other protectionist measures is bound to hurt not only ASEAN but the US as well. An effective GVC relies not only on a country’s ability to produce and distribute goods and services efficiently but more importantly on the openness of the economy, since the GVC relies both on strong forward and backward linkages. Protectionist policies will definitely harm GVCs that have been the backbone of global trade, production and consumption ([Chart 5 & 6](#)).

### 3. Exploiting the Demographic Dividend

The strong economic growth projection for ASEAN is supported by the favorable demographic situation of the member states. ASEAN, especially the middle-income countries like Indonesia and the Philippines with relatively young populations and educated labor force, are reforming their respective economies to take advantage of the so-called demographic dividend. *Table 5* reports the demographic status of each country. In *The Demographic Dividend: A New Perspective on the Economic Consequences of Population Change* (Arlington, Virginia: RAND, 2003), authors David E. Bloom, David Canning and Jaypee Sevilla coined the term “demographic dividend” to refer to the impacts of the changes in the fertility and mortality rates on a country’s economic performance and examined the impacts of changes in age-structure on economic growth. High fertility and low mortality rates create a high proportion of dependents but on the positive side, the availability of a young and fertile labor force, if properly nurtured with the right education, technical training and work skills, can constitute a huge pool of

TABLE 2

**Top ASEAN products imported & exported to US, 2016**

Exports			Imports		
Sector (2-digit HS Code)	Amount (\$ mil.)	% Share	Sector (2-digit HS Code)	Amount (\$ mil.)	% Share
Electrical machinery and equipment and parts thereof	33,915	25.9	Electrical machinery and equipment and parts thereof	18,458	22.9
Nuclear reactors, boilers, machinery and mechanical appliances, parts thereof	19,203	14.7	Nuclear reactors, boilers, machinery and mechanical appliances, parts thereof	16,043	19.9
Articles of apparel and clothing accessories, knitted or crocheted	11,309	8.6	Aircraft, spacecraft and parts thereof	6,542	8.1
Articles of apparel and clothing accessories, not knitted or crocheted	7,512	5.7	Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories	5,708	7.1
Footwear, gaiters and the like; parts of such articles	6,046	4.6	Plastics and articles thereof	2,895	3.6
Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories	5,890	4.5	Food industries, residues and wastes thereof; prepared animal fodder	2,260	2.8
Rubber and articles thereof	5,622	4.3	Chemical products N.E.C.	2,245	2.8
Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, N.E.C.; illuminated signs, illuminated name-plates and the like; prefabricated buildings	4,756	3.6	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit, industrial or medicinal plants; straw and fodder	1,999	2.5
Fish and crustaceans, molluscs and other aquatic invertebrates	2,708	2.1	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1,664	2.1
Natural, cultured pearls; precious, semi-precious stones; precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	2,240	1.7	Organic chemicals	1,424	1.8

Source: ASEANStats Database

TABLE 3

**Exports of services, US (\$ mil.)**

	2011	2012	2013	2014
World	627,781	656,411	687,894	710,565
Percent to Total (%)	100	100	100	100
Indonesia	1,913	2,190	2,235	2,499
Percent to Total (%)	0.30	0.33	0.32	0.35
Malaysia	2,671	2,627	2,695	2,859
Percent to Total (%)	0.43	0.40	0.39	0.40
Philippines	2,117	2,527	2,480	2,408
Percent to Total (%)	0.34	0.38	0.36	0.34
Singapore	11,613	12,289	11,564	11,941
Percent to Total (%)	1.85	1.87	1.68	1.68
Thailand	2,200	2,257	2,738	2,893
Percent to Total (%)	0.35	0.34	0.40	0.41

Source: OECD Statistics on International Trade in Services, Volume 2016 Issue 2: Detailed Tables by Partner Country.

talent, creativity and expertise for the Fourth Industrial Revolution. They will also be the mass of sophisticated and discriminating consumers of the future.

With protectionism, the US stands to lose traction with a growing consumer base and rising middle-class in ASEAN, which will transform into a stronger economic powerhouse buoyed by the recovery of East Asian economies. Protectionism could benefit US domestic producers in the short term. In the long haul, it will harm

TABLE 4

**Imports of services, US (\$ mil.)**

	2011	2012	2013	2014
World	435,761	452,013	463,700	477,428
Percent to Total (%)	100	100	100	100
Indonesia	549	670	660	655
Percent to Total (%)	0.13	0.15	0.14	0.14
Malaysia	1,306	1,451	1,431	1,789
Percent to Total (%)	0.30	0.32	0.31	0.37
Philippines	3,135	3,968	3,918	4,384
Percent to Total (%)	0.72	0.88	0.84	0.92
Singapore	5,224	5,558	5,545	5,964
Percent to Total (%)	1.20	1.23	1.20	1.25
Thailand	2,062	2,381	2,684	2,804
Percent to Total (%)	0.47	0.53	0.58	0.59

these same producers who would eventually lose out to China and other East Asian countries who consciously remain open trading partners of ASEAN.

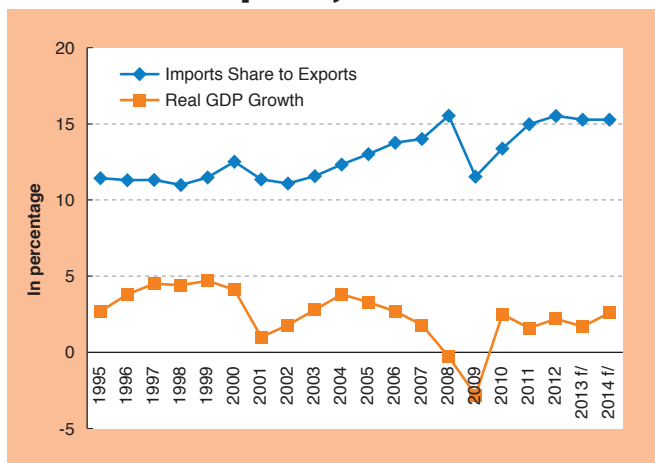
**Summing Up**

The past experiences of countries that have adopted protectionist policies are not lost on US politicians, especially those who are keen



CHART 5

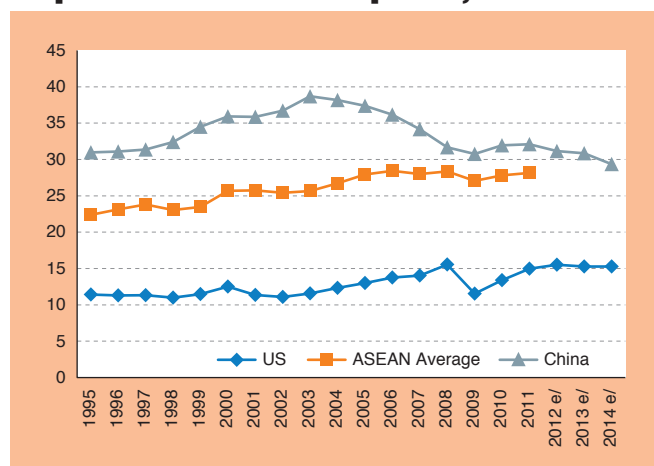
### US real GDP growth vis-à-vis import content of exports, 1995-2014



Source: OECD (2017). *Import content of exports*. Retrieved Nov. 10, 2017

CHART 6

### Import content of exports, 1995-2014



Note: ASEAN includes Brunei, Indonesia, Singapore, the Philippines, Thailand, and Vietnam.

Source: OECD (2017). *Import content of exports*. Retrieved Nov. 10, 2017

students of economic history. One can remember the case of the Latin American countries during the 1950s and 1960s which implemented Import Substitution Industrialization policies (e.g. protective tariffs, preferential import exchange rates) with the goal of becoming more economically advanced and less reliant on foreign countries. Critics cited issues particularly on the across-the-board promotion of industries without considering comparative advantage and the low labor absorption rates (Werner Baer, "Import Substitution and Industrialization in Latin America: Experiences and Interpretations", *Latin American Research Review*, 1972). Another case is the adoption of protectionist policies by the Argentine government, such as the so-called "foreign-exchange trap", imposing additional taxes on goods bought outside the country and provision of incentives for the development of domestic businesses. While these seemed to be beneficial to domestic producers, costs rose due to the difficulty in acquiring imported inputs, rendering the same companies uncompetitive (*The Risks and Rewards of Argentina's Growing Protectionism*. The Wharton School, University of Pennsylvania, 2012). Indeed, those experiences could serve as a useful guide to policymakers. Protectionist policies hurt more than benefited the producers and consumers alike in those economies. Unfortunately, the current political leadership in the US believes otherwise, and its rhetoric argues for a push back against the markets.

The political leadership has not shown any evidence of unmitigated benefits to US firms, consumers, and the economy as a whole from securing jobs for its citizens by forcing firms to relocate back despite the obvious cost disadvantages, erecting high-tariff and non-tariff barriers, and walking away from an orderly, rules-based, liberal trading system. The impact on ASEAN is likewise deleterious because of the costly delay to deeper integration with main trading

TABLE 5

### ASEAN population ages 15-64 as percentage of total population

	1991-1995	1996-2000	2001-2005	2006-2010	2011-2016
Brunei	63.5	65.7	68.3	70.0	71.9
Cambodia	51.2	52.8	58.1	61.7	64.1
Indonesia	61.2	63.6	65.0	65.8	66.9
Laos	52.0	52.4	54.7	58.5	62.0
Malaysia	60.1	61.8	64.1	66.2	68.8
Myanmar	59.4	62.0	63.8	64.7	66.5
Philippines	56.6	57.8	58.9	60.9	63.0
Singapore	72.1	71.0	72.2	73.1	73.1
Thailand	66.6	68.7	70.4	71.6	71.6
Vietnam	57.8	60.4	64.6	68.5	70.2
<b>ASEAN (Average)</b>	<b>60.1</b>	<b>61.6</b>	<b>64.0</b>	<b>66.1</b>	<b>67.8</b>

Source: World Bank Indicators

partners, considering the relative size of its trade with the US. A rebounding US economy seems to be on the horizon and if the recovery is sustainable, the rest of the world benefits, especially those with close linkages with the US economy. However, shackling trade through protectionist policies will weaken global growth prospects, and in the end every country loses. **JS**

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