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Does Trump Need China?

Trump and Xi. Courtesy of Flickr account of Gage Skidmore and UN Geneva under a creative common license.

FEATURED COMMENTARY

US-China Economic Ties Under Trump: Need for More Balance

By Phidel Vineles

US President Donald Trump. Courtesy of Flickr account of Gage Skidmore under a creative common license.

The US under Trump bemoans its trade deficit with China as a serious economic threat. Should it be a justification for the Trump administration to impose protectionist measures against China?

Commentary

ON 6 APRIL 2017, United States President Donald Trump and his Chinese counterpart Xi Jinping met in Florida for a special summit. They thrashed out key issues they asserted could lead to rising tensions between them. One of these was the trade imbalance between the two giant economies which both leaders agreed to address over the next 100 days.

The goal is to improve the trade balance by increasing US exports to China and not by limiting Chinese exports to the US. Although the 100-day plan could avert a trade war between the world's two largest economies, implementation of protectionist measures by the US is still a threat. US Secretary of Commerce Wilbur Ross said that if there are no tangible results in the first 100 days, the Trump administration will examine whether it is worthwhile to continue the plan.

What Is At Stake?

According to the World Bank, US consumption is the biggest in the world, with more than US$14.88 trillion household consumption expenditure in 2015. Meanwhile, China has the biggest total export of goods amounting to more than $2.14 trillion in 2015. The relationship between the two economic behemoths is clear: while the US is the largest consumer and China the biggest exporter, however, there is a change of direction in both countries. The US is sliding towards protectionism while China is heading towards a consumption-led economy.

A sudden change of direction in the US economy towards protectionism could prevent it having a balanced economic relationship with China. Indeed the proposed protectionist policies of the Trump administration could harm the US economy. Moreover, it could also brush aside a more balanced trade relationship between the two countries as agreed in the US-China Strategic and Economic Dialogue (S&ED). With these uncertainties, Trump's protectionism could possibly become a big threat to the US economy.

Trump's protectionist policies could definitely hit the US economy the hardest; however, it is still more likely that the US administration will impose the proposed protectionist measures. According to a recent research study from Wall Street investment banks and law firms, there is more than 50% probability that Trump will impose higher tariffs to discourage imports from overseas factories owned by US companies. Thus, the quadrupled profits of US companies in China from 2004 to 2012, as shown by a JPMorgan study, could significantly drop.

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Moreover, the US economy could be in the doldrums because of these protectionist measures. If the Trump administration imposed tariffs on Chinese goods of 45%, it would result in higher prices of goods that could adversely affect American consumers and the country's export competitiveness.

China may also retaliate by reducing the holdings of US Treasury bonds and cutting imports of US products. There are also losses to US multinational companies (MNCs) due to the increase of production costs, as they have based their supply chains in China and other emerging economies in the region.

Understanding the Co-dependency

Both countries are locked in their interdependency from which both benefit. China depends on the US market for its exports, which amounted to $161.6 billion in 2015, while the US relies on China's purchases of US Treasury securities and other US dollar-based assets. Moreover, China is the second largest lender to the US government, accounting for $1.115 trillion US debt to China as of October 2016.

Nevertheless, their interdependency benefits both countries. China's loans to US, through the purchase of US Treasury securities, which in turn provides funds to Federal Reserve and allows US to import Chinese products. However, the former Chairman of Morgan Stanley Asia and American economist Stephen Roach pointed out that China is in the direction of a major shift from an export-led and investment-led economy to an economic model which is more dependent on consumption and services sector. Hence, it's a conundrum how the US would respond to China's shift towards a consumption-led economy if the US is still reliant on cheap Chinese goods and capital.

China's economic shift towards increased consumption started in 2011 when the 12th Five-Year Plan was enacted, which provided a framework of structural rebalancing. Thus, significant economic reforms were ratified in 2013 to support the consumption-led economy shift. Some of the important economic reforms that were ratified were modifications to the one-child family policy and also a 30 percent tax on state-owned enterprise (SOE) profits.

Moreover, China had doubled the size of its services sector over the last two decades, which accounted for about 46 percent of GDP in 2013. In this context, US needs to have a symmetrical response with the ongoing economic transformation of China.

As Roach explained, the US has to increase its domestic savings because China's consumption-led economy shift will reduce China's purchase of US Treasury securities, and the reduction of China's purchase of US Treasury securities will lessen Chinese capital in the US market that would result in high interest rates. Moreover, US' overreliance on foreign countries' demand of US Treasury securities allows the country to fund its consumption binge beyond its means.

US-China Strategic and Economic Dialogue (S&ED)

S&ED is a high-level dialogue used to discuss a broad range of regional and global strategic and economic issues between US and China. The format involves senior representatives and delegations of both countries meeting annually at capitals alternating between the two countries. It was established by former US President Barack Obama and former Chinese President Hu Jintao in April 2009. The first meeting was held in Washington, D.C. in July 2009.

Need For More Balanced Relationship

While every country has the right to assess its foreign policy through the lens of its national interests, the Trump administration should avoid focusing only on the friction of its relationship with China. It is essential for both economies to place their S&ED process at the centre of their bilateral relationship.

In 2011, both countries agreed in the third round of S&ED to promote a more balanced trade relationship. It was agreed that China should take necessary steps to increase its domestic consumption as stated in their 12th Five-Year Plan, while US should increase its domestic savings and exports under the U S' National Export Initiative.

The S&ED will also serve as an instrument for discussion on how to cope with critical issues of trade, currency exchange rates, and business environments. It could also serve as an avenue for the two big economies to discuss their potential cooperation on infrastructure initiatives, in which Chinese companies could invest. This could be a huge achievement for the US since China is seeking financial and technological cooperation from industrialised economies for its Belt Road Initiative (BRI).

The Trump administration blames deficits with China as a serious economic threat. However, it blinds the country from realising that they need stronger macro-economic fundamentals and a more balanced relationship with China. Hence, pursuing these policy measures rather than implementing protectionist policies could help "Make America Great Again". ■

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RSIS Seminar Series on Multilateralism Studies: 'The New Nationalism in Trade Policy' by Evan Rogerson

Mr Evan Rogerson, Distinguished Visiting Fellow of RSIS and Former Director, Agriculture and Commodities Division of the WTO Secretariat

On 12 May 2017, the Centre for Multilateralism Studies (CMS) organised a seminar on "The New Nationalism in Trade Policy – Regional Responses." The presentation was given by Mr Evan Rogerson, Distinguished Visiting Fellow of RSIS and Former Director, Agriculture and Commodities Division of the WTO Secretariat.

He underscored that the resurgence of economic nationalism has put trade liberalisation in a risky position. It is evidently shown when political leaders in some industrialised countries rejected trade agreements.

According to Rogerson, the government should have proper adjustment policies and stop blaming external factors. These adjustment policies must be based on the trends affecting the global economy. For example, policies should be responsive to technological changes to avoid job losses in the manufacturing sector because of robotics.

The positive trade narrative needs to be supported by government action, Rogerson said. The governments should implement WTO commitments fully and promptly, especially ensuring that domestic procedures are in place to implement the Trade Facilitation Agreement, which has just entered into force. He also lauded dispute settlement mechanism in resolving international trade disputes, which gives huge emphasis on consensus building over unilateral action.

Government and private sector should unite towards a stable and open trading system. Rogerson also urged smaller countries to work together in developing ideas and positions that could significantly influence the trading system. He cited Singapore as an example which exerted significant weight in the multilateral trading system, especially when it hosted the first WTO Ministerial Conference in 1996.■

Participants of RSIS Seminar Series on Multilateralism Studies at the Keypoint, RSIS

RSIS-WTO Parliamentarian Workshop 2017

Madame Speaker Halimah Yacob of the Singaporean Parliament delivered her speech at the eight edition of the RSIS-WTO Parliamentarian Workshop held at Pan Pacific, Singapore.

The eighth edition of the RSIS-WTO Parliamentarian Workshop was held on 15-17 May at Pan Pacific, Singapore. The workshop is part of the Temasek Foundation Series on Trade & Negotiations and jointly organised by the Centre for Multilateralism Studies (CMS) and the World Trade Organisation (WTO). Parliamentarians from across Asia Pacific region and Central Asia were invited to the workshop to build on their knowledge of the multilateral trading system.

Parliamentarians from across the Asia Pacific at the workshop.

The multilateral trading system is seemingly under threat by the rise of economic nationalism, particularly in the previously trade liberal Western economies. The election of Trump and the Brexit situation highlights how some have turned their back on economic globalisation, with the worry of protectionism approaching on the horizon. The WTO maintains that a rules based multilateral approach to world trade is beneficial to all parties and can help obtain many national goals pertaining to development. This workshop partly reaffirmed the WTO's relevance for bright economic future and how the members can make a difference.

Madam Speaker Halimah Yacob, of the Singaporean Parliament, spoke of the importance of the continuation of the multilateral trading system to Singapore and the ASEAN region. She argued that greater levels of world trade can help the region develop and become more competitive in the global economy. The workshop gave the parliamentarians opportunities to hear from industry experts as well as representatives from the WTO such as Keith Rockwell, Chief Spokesman and Said El Hachimi, Counsellor of the Information & External Relations Division.

This platform allowed the participants to learn more about how their respective nations could benefit from greater free trade, and how the multilateral trading system can work for them and their constituents. The three-day event also included field trips to the PSA Port of Singapore, to discover how Singapore organises its port logistically to facilitate trade, as well as a tour of Singapore's Parliament building.■

RSIS Seminar Series on Multilateralism Studies: 'Philippine Economic Outlook for 2017 and Beyond' by Dr Aekapol Chongvilaivan

On 29 June 2017, the Centre for Multilateralism Studies (CMS) organised a RSIS Seminar Series on Multilateralism Studies about "Philippine Economic Outlook for 2017 and Beyond." The Philippines is expected to continue a high economic growth in 2017, according to Dr Aekapol Chongvilaivan, Country Economist for the Philippines, Asian Development Bank (ADB).

The Philippine growth is projected to moderate to 6.4 percent this year, which is lower than last year's 6.9 percent. Nevertheless, the country is still the fastest growing economy among ASEAN-6 and growth could accelerate further to 6.8 percent in 2018.

Continuous economic growth is attributed to the government's intensified efforts to sustain growth and improve macroeconomic fundamentals, Dr Chongvilaivan said. The economic growth forecasts for 2017 and 2018 must be viewed with optimism, especially that the government is planning to ramp up its infrastructure spending under Pres Rodrigo Duterte's flagship "Dutertenomics", which is seen ushering in "a golden age of infrastructure".

There are also signs that the country is on pace to reach its economic growth potential. This includes the tax reform program, which is now in the Senate for approval. It is considered to be a fiscal stimulus by lowering personal income tax and increasing tax rates in automobile and oil products. The tax reform program is expected to boost government revenues for infrastructure spending.

Moreover, inflation rate is within the central bank's target at 3.2 percent. It is also interesting that investment and manufacturing serve as new drivers of growth in the Philippines. However, it is a challenge for the economy to find its comparative advantage to help manufacturing sustain its growth momentum.

Nevertheless, the country still has a lot of catching up to do to achieve inclusive growth. For example, 75 percent of the country's GDP growth is contributed by urban area, and poverty rate is high at 21.6 percent.■

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Multilateral Matters is the quarterly publication of the Centre for Multilateralism Studies (CMS), analysing the most recent developments regarding multilateralism by our team. It covers articles on relevant economic and political issues as well as programmes and latest publications from the research centre. The objective of the newsletter is to promote the research being done by our centre, raising awareness of the many events that we hold on a regular basis.

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