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PROTECTIONISM ON THE RISE

What impacts for Business in the Asia-Pacific?

Quarterly Research Report | 2017-#2





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Executive Summary

Protectionism has become a trendy word recently and appears to be on the rise in various parts of the world, starting with the United States. In reality, however, complex negotiations have eroded trade leadership at the WTO level and the trade policy dynamics in Washington and Brussels seem compromised.

The Asia Pacific, as a result, might attract more and more interest from a political leadership and business perspective

Protectionism is on the rise. With President Trump's arrival to power and after months of political campaigning in the United States praising 'America First' policies, the idea of protecting domestic markets from globalisation has gained credit to many. Similar ideals are now being defended in Europe and, overall, the issue of industrial preservation is a major discussion topic which creates tensions between the biggest economies.

Protectionism is far from being a new concept. Policies aimed at preserving domestic markets from external competition and pressure have been put into place and relied upon for years, at various levels.

At the international level, protectionism has been a focus point for decades and, over the past sixteen years, has created many policy and regulatory deadlocks. At the regional and domestic levels, unsurprisingly, the necessity to preserve markets for external pressures has also long been a reality.

As far as the Asia-Pacific region is concerned, protectionism as it is currently developing might however be a chance. While change will unquestionably require a significant amount of time from a legal point of view, the region has already started to rise in terms of trade diplomacy and might gain significantly on the global political leadership side of things in the medium run. Economically, the region will sooner or later benefit from this change in trade dynamics.

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PROTECTIONISM ON THE RISE

What Impacts for Business in the Asia-Pacific?

**POLITICALLY, THE REGION
COULD GAIN IN TERMS OF
GLOBAL LEADERSHIP.**

**ECONOMICALLY, IT WOULD
BENEFIT FROM A
SIGNIFICANT CHANGE IN
TRADE DYNAMICS**

With Brexit in the European Union, President Trump setting policies aimed at putting US interests first, and China pushing its economy forward, 'protectionism' has become a big and trendy word lately.

Yet, protectionism is not a new phenomenon. It has long been a key aspect of international relations, particularly at the very global level where countries reunited under the auspices of the World Trade Organization (WTO) have had a hard time to achieve results acceptable to all.

As far as the Asia-Pacific region is concerned, however, protectionism as it is currently developing at the worldwide level might be a chance. Politically, the region could gain in terms of global leadership. Economically, it would benefit from a significant change in trade dynamics.

I | Protectionism: complicated global dynamics

Protectionism has long been a major international policy and regulatory challenge. In fact, after 60 years of negotiations, it still is a source of tensions globally.

Continuing discussions, for 60 years

As far as the international community is concerned, the breaking of barriers to trade has long been a major objective and numerous global negotiations – known as 'multilateral' negotiations - have taken place over the past 60 years.

These started prior to the discussions on trade in goods under the General Agreement on Tariffs and Trade (GATT) and led to the creation of the World Trade Organization (WTO) following the Marrakesh Agreement of 1993.

Additional efforts had been made at the time in relation to cross-border trade in services under the General Agreement on Trade in Services (GATS) but these negotiations have reached limited results. Due to architectural reasons, they have only given negotiating countries some incentives to open market selectively.⁽¹⁾

Worth noting, however, are the successes achieved in 1995 with regards to intellectual property rights protection.

(1) See WTO – Services Trade - available at <https://goo.gl/n3SYCE>.

THE OUTCOMES OF SUCCESSIVE TRADE POLICIES REMAIN DIFFICULT TO QUANTIFY.

Difficulties in quantifying outcomes

In practical terms, however, the direct contribution of the market-opening trade policies conducted since the late 1950's is a permanent topic of conversation.

Based on a *World Development Report* released by the World Bank in 1987, experts have long argued that trade tariffs prior to the GATT negotiations used to reach 40% on average. This number is however being questioned as an 'urban legend'⁽²⁾ and, all in all, the publicly available data is mainly technical, largely indigest and difficult to translate into plain English.

In other words, the outcomes of successive trade policies remain difficult to quantify.⁽³⁾

By the end of the 1990's, for instance, the WTO reported that 22,500 pages of tariff-related commitments had been accounted for. The WTO, in addition, suggests that developed economies, developing economies and transition economies respectively made commitments regarding 99%, 73% and 98% of their goods-related tariff lines, against 78%, 21% and 73% prior to the Uruguay Round talks conducted between 1986 and 1994.⁽⁴⁾ Yet, the data merely deals with tariff lines and does not reflect trade volumes or values and thus remains difficult to interpret and assess.

MULTILATERAL EFFORTS HAVE LACKED GLOBAL LEADERSHIP.

A lack of global leadership

A key point is that the efforts to curb protectionism at the global 'multilateral' level over the past twenty years have lacked leadership. In fact, the general negotiations which have taken place under the WTO since 2001 (the Doha Round) have remained largely inefficient.

In retrospect, developing countries have focused on the gaining access to the agricultural markets of developed economies. Meanwhile, the latter have kept protecting and subsidising their domestic markets against foreign competition while requesting market-opening policies in relation to financial services, competition and more modern issues not of interest to the developing economies.

In late 2016, after years of deadlocks, the WTO Ministerial Conference held in Nairobi finally announced the end of the Doha Round, thus admitting the inability of the international community to treat protectionism as a common priority.⁽⁵⁾

(2) Chad Bown and Douglas Irwin, 'The urban legend: Pre-GATT tariffs of 40%' VOX Center for Economic and Policy Research (CEPR).

(3) Yearly Tariffs Profiles are published by the WTO, ITC and UNCTAD; See also the WTO information page on Tariffs.

(4) See Understanding the WTO - 'Tariffs: more bindings and closer to zero' available at <https://goo.gl/MHmOFu>. See also WTO - Members' Commitments on Goods Schedules - at <https://goo.gl/ON2mLt>.

(5) Tenth WTO Ministerial Conference, Nairobi 2015.

**THE TFA IS ABOUT SIMPLIFYING,
MODERNISING AND
HARMONISING EXPORT AND
IMPORT PROCESSES.**

Other international influencers seem to be in a difficult position to lead too. In March 2017, in particular, the G20 meeting which reunited the finance ministers and central bank representatives from the 20 major developed and developing economies failed to include a commitment to resist all forms of protectionism as normally practiced over the last decade.⁽⁶⁾

Hopes regarding the Trade Facilitation Agreement

Hopes towards easier cross-border trade have nonetheless emerged recently, following the entry into force on 22 February 2017 of the Trade Facilitation Agreement (TFA).

The TFA is an important step forward and is described by the WTO as ‘the first multilateral deal concluded in the 21 year history of the World Trade Organization’.⁽⁷⁾

In more practical terms, however, the instrument is about creating a framework and an implementation body (the TFA Facility) on custom procedure facilitation.

As formulated by the WTO, the TFA aims...

‘to improve transparency and predictability of trading across borders and to create a less discriminatory business environment. The TFA’s provisions include improvements to the availability and publication of information about cross-border procedures and practices, improved appeal rights for traders, reduced fees and formalities connected with the import/export of goods, faster clearance procedures and enhanced conditions for freedom of transit for goods. The Agreement also contains measures for effective cooperation between customs and other authorities on trade facilitation and customs compliance issues.’⁽⁸⁾

The TFA, in other words, is not about reducing protectionist policies. It is about ‘the simplification, modernization and harmonization of export and import processes’ or, in more concrete terms, about dealing with the ‘bureaucratic delays and “red tape”’ that make trade a tedious operation.

(6) G20 Finance Ministers and Central Bank Governors Communiqué, Baden Baden (March 2017).

(7) World Trade Organization, ‘WTO: 2017 News items - WTO’s Trade Facilitation Agreement enters into force’ (February 2017).

(8) ‘World Trade Organization, WTO’s Trade Facilitation Agreement enters into force’, (February 2017).

Therefore, whilst the WTO has reached limited results as a policy and negotiation leader over the past 25 years, the expectations as to the TFA's ability to change the rules of cross-border trade are significant.

According to the Organization's research:

“The range of trade cost reduction will be between 9.6 per cent and 23.1 per cent. African countries and LDCs [the Least Developed Countries] are expected to see the biggest average reduction in trade costs (in excess of 16 per cent) from full implementation of the TFA. Full implementation will reduce trade costs of manufactured goods by 18 per cent and of agricultural goods by 10.4 per cent. Full implementation of the TFA also has the ability to reduce time to import by over a day and a half (a 47 per cent reduction over the current average) and time to export by almost two days (a 91 per cent reduction over the current average).”⁽⁹⁾

THE CONSEQUENCE HAS BEEN THE MULTIPLICATION OF FREE TRADE AND INVESTMENT AGREEMENTS OVER THE PAST TWENTY YEARS

II | Consequences of global trends: more negotiations and influence-contests

Mentioning this historical and largely international background shows that while protectionism has long been considered a problem on a global scale, state actors have never been capable to curb it.

The consequence of this failure is straightforward. First, the failure of states to reach global agreements has led to an important number of parallel smaller-scale negotiations. This trend, in turn, has had important impacts in terms of economic, political and legal leadership, both internationally and regionally.

More negotiations have taken place

The main consequence of past trade deadlocks is the multiplication of free trade and investment agreements over the past twenty years.

On the one hand, countries have attempted to limit the negative impacts of market protectionism by negotiating free trade concessions on a bilateral and tailor-made basis. Furthermore, a similar trend can be observed in relation to foreign investment promotion and protection agreements.

(9) World Trade Organization, World Trade Report 2015, 'Speeding up trade: benefits and challenges of implementing the WTO Trade Facilitation Agreement' (2015).

For instance, the Office of the United States Trade Representative (USTR) currently lists 20 bilateral agreements on trade and 41 bilateral agreements on investment promotion, but other sources list 68 agreement with investment provisions involving the US with foreign trade partners.

Globally, more significantly, international expert agencies accounts for 3.304 treaties aimed at promoting foreign investment on a purely bilateral scale.

On the other hand, and because the system has over time created what is regularly described as a regulatory ‘noodle bowl’, trade and investment negotiations have followed a wider and more inclusive approach.

Recently, large treaties known as ‘mega-regional agreements’ have been negotiated and concluded, with the aim of reducing protectionism on a regional scale, by facilitating market access and foreign investment throughout various countries at a time.

The trend started in the 1990’s with the signature of the North American Free Trade Agreement (NAFTA) between the US, Canada and Mexico. This was more recently the case with the Trans-Pacific Partnership (TPP) negotiated between the US and eleven Asia-Pacific countries or with the Transatlantic Trade and Investment Partnership (TTIP) between the US and the European Union. Earlier this year the European Parliament approved the text of the Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada. The Trade in Services Agreement (TiSA), finally, is also being discussed behind closed doors between twenty-three WTO members including the EU to further the services negotiations once conducted under the WTO.⁽¹⁰⁾

In the Asia-Pacific, the Regional Comprehensive Economic Partnership (RCEP) agreement is currently being discussed between the ASEAN countries and six of their trade partners, including China, Australia or India. China, in addition, is slowly bringing its Free Trade Agreement of the Asia-Pacific (FTA-AP) project into place.⁽¹¹⁾

These negotiations have influence as a common denominator. One way or another, they have largely been influenced by the leadership of major powers, particularly the US or the EU.

**‘MEGA-REGIONAL AGREEMENTS’
HAVE BEEN NEGOTIATED TO
REDUCE PROTECTIONISM ON A
REGIONAL SCALE**

**INFLUENCE: A COMMON
DENOMINATOR**

(10) For more information on the various free trade agreements, see the Asia-Pacific Circle 's website - 'The Political Economy Explained' at <https://goo.gl/5WBPrQ>.

(11) For more comments and analyses on the political developments surrounding the FTAAP, see the Asia-Pacific Circle's website at <https://goo.gl/NwTvUq>.

(12) See note 11.

At the global level, in other words, the idea of breaking protectionist barriers to trade has largely been about global politics. In the case of the TPP an influence contest between the United States and China has long mattered. The TPP, in fact, has even been described by commentators as a ‘path’ paving the way to a future and broader Chinese-led FTAAP.⁽¹²⁾

III | Protectionism at the forefront

Yet, despite international negotiations and regional initiatives, protectionism is more than ever at the forefront, particularly for the major countries.

UNITED-STATES: PROTECTIONISM AS A NEW LEADERSHIP FORM

Leadership made in USA

The word ‘protectionism’ has become particularly present in the United States lately, where the protective measures taken during the 80’s to preserve the US car industry from Japan have over the last years been replaced, for instance, by heavy taxation on Chinese steel (in excess of 600%) aimed at preserving the US metallurgic industry from foreign subsidised competition.⁽¹³⁾

With the arrival of President Trump to power, even more recently, a shift is currently operating from global US leadership on free trade to a ‘America first’ ideology in which trade barriers are now being praised to the detriment of global trade leadership.

The Trans-Pacific Partnership (TPP) agreement negotiated by Washington - and which would have given US industries access to eleven countries in the Asia-Pacific - has become a feature of the past because of its excessive opening of US markets. The coal industry is now gaining public support, pipelines are being built to boost domestic oil & gas producers. Reports, in fact, suggest that 1 trillion worth of infrastructure investment is currently being considered by the Trump administration for the next ten years, with priority being unsurprisingly given to US steel producers.⁽¹⁴⁾

“Our goal as a nation must be to rely less on imports, and more on products made here in the USA”⁽¹⁵⁾

(13) See The Asia-Pacific Circle, ‘The US – China agreement on steel overcapacity: impacts on trade & international affairs?’ (2016) available at <https://goo.gl/wl3etF>.

(14) ‘Trump’s protectionism to have seesaw effect on steel market’ (Nikkei Asia, January 2017).

(15) See ‘Donald Trump Warns of Penalties If U.S. Firms Take Jobs Abroad’ (Wall Street Journal, December 2016); See also ‘Trump vow penalties for companies that outsource American jobs’, (Infowars, February 2017).

In an attempt to preserve and foster American jobs – whilst containing and reducing the country's trade deficit with Asia – in addition, President Trump has repeatedly warned that penalty-based policies would be put into place to deter US companies from outsourcing production abroad.

President Trump, finally, recently pushed defiance a little further by taking a stand against the World Trade Organization's dispute settlement mechanism. Simply put, whilst the system was created so as to create harmony through fair and reliable dispute resolution, the White House is now increasingly bringing forward the idea that 'Americans are not directly subject to WTO decisions' that would go against US fair trade interests.

A conflicted European Union

In Europe, protectionism is both a target and a way of life.

Officially, market opening is an ideal that the European Commission is trying to achieve, both internally and through free trade agreements with Asian and South-American countries. In reality, industrial champions are preserved, member countries are seeking ways to fight the unfair competition created by the free movement of workers inside the Single Market.

Chinese steel is also taxed - although less than in the US⁽¹⁶⁾- and the Common Agricultural Policy aims at supporting European farmers through substantive subsidies.

The French presidential elections raised concerns over the future of Europe until the first quarter of 2017 but the UK marked 2016 with an exploding Brexit which suggested that the European free market dynamic would face important challenges in the next years, both in terms of internal functioning and in terms of external influence. In fact, the CETA and TTIP free trade agreements with Canada and the US, have been perceived as threatening European markets by populations increasingly questioning liberalisation policies and liberalism as an economic and societal model.

A controversial Chinese model

In China, protectionism has also taken various forms.

Many criticisms are being formulated against restrictions imposed on foreign investors or in relation to market access and public contracts.

**EUROPE:
PROTECTIONISM IS A TARGET
AND A WAY OF LIFE**

**CHINA:
PROTECTIONISM, SUBSIDIES
AND MARKET ECONOMY
STATUS DISCUSSIONS**

(16) See note 13 above.

BUT THE TREND IS UNLIKELY TO CHANGE

Monetary policies have been widely questioned for supporting the Chinese economy on international markets. Beijing, also, has historically supported its economic model by relying on heavily subsidised state-owned enterprises (SOEs), particularly in the coal and steel sectors which, currently, would not be sustainable without such public support.

Hence, many talks have taken place - particularly between the US and the EU - to determine whether China does indeed have a market economy and whether anti-dumping tariffs can be imposed on Chinese products.⁽¹⁷⁾

In the main, however, it is clear that Beijing's economic policy model leaves the main big players unsatisfied. To the United States Trade Representative, in fact:

'Many of the problems that arise in the U.S.-China trade and investment relationship can be traced to the Chinese government's interventionist policies and practices and the large role of state-owned enterprises and other national champions in China's economy, which continue to generate significant trade distortions that inevitably give rise to trade frictions'.⁽¹⁸⁾

THE ASIA-PACIFIC IS LIKELY TO BENEFIT FROM CURRENT TRENDS FOR DIFFERENT REASONS

The trend, however, is unlikely to change in the short or medium term, if only because China has no real wiggle room for doing so.

After years of economic development relying on cheap subsidised exports, the country is now facing the limits of its approach and needs to operate a strategic pivot. Investment will become a key aspect – foreign investment included – but Beijing will certainly need time to plan the necessary reforms. Default has been allowed on some major SOEs, and some consideration is being given to the steel and coal production model, but here again Beijing somehow has its hands tied because it faces the risk of making hundreds of thousand workers jobless.

(17) See Asia-Pacific Circle, 'Market Economy status or 'non market economy' status? China, EU, US, WTO and world businesses' available at <https://goo.gl/TdKj1>.

(18) United States Trade Representative Report to Congress On China's WTO Compliance (December 2015).

IV | Impact of current trends on the Asia-Pacific

In a nutshell, therefore, the above suggests that while policies aimed at curbing protectionism have been discussed and implemented globally for decades, in reality it has remained an important aspect of international and regional relations.

Having said that, the picture drawn previously leaves significant margin of manoeuvre to the most determined countries and, one way or another, the Asia-Pacific is likely to benefit from current trends for different reasons.

Some protectionism in the Asia-Pacific too...

Certainly, Asian countries are well aware of what protectionism is about.

Japan, Korea or Taiwan are well-known for having supported nascent industries in the 1960's and 1970's. Japanese policies, in fact, are still being questioned.⁽¹⁹⁾

Over the past ten years, market protection policies have furthermore been conducted in Indonesia, whilst South Korea has doubled its tariffs on raw materials imports and Malaysia has attempted to fight domestic unemployment by putting restrictions on foreign workers.

Toys manufactured in China have been restricted in India thus leading Beijing to issue a formal communication before WTO Committees and creating fears of a trade war between the two countries. As just mentioned, China is also known for conducting various protective and supportive policies. Hence, 'protectionism' is no taboo in the region, where leaders have never really hesitated to rely on it whenever necessary.

Some concerns raised...

Some concerns have been raised that the trend as currently occurring in the West could have negative impacts on the Asia-Pacific region.

In particular, potential US policies aimed at punishing outsourcing projects to Asia or Mexico suggest that lower outwards trade flows might be expected.⁽²⁰⁾

In addition, the TPP Agreement from which the US recently withdrew had the merit of bringing to the negotiation table important aspects of modern trade, such as e-commerce,

**CONCERNS HAVE BEEN RAISED
THAT THE TREND IN THE WEST
COULD HAVE NEGATIVE
IMPACTS ON THE ASIA-PACIFIC
REGION**

(19) See Reiji Yoshida, 'In statement to WTO, U.S. urges Japan to further open up auto, farm markets', (The Japan Times, March 2017).

(20) Mike Dorning , Thomas Black and Nacha Cattan, 'Trump's Threat Damps Companies' Plans to Move U.S. Jobs Abroad' Bloomberg Politics (December 2016).

financial services, foreign investment, competition or public procurement which, clearly, would have created important cross-border trade and investment opportunities amongst its twelve Asia-Pacific countries.

Hence, current US trade policies could lead to important missed opportunities to increase business and growth in the region.

For instance, as recently noted by the Fitch rating agency, these developments might notably impact Vietnam which, as a result, might have very significant hopes as to the potential outcomes of its recent trade negotiations with the EU.⁽²¹⁾ Again, however, current developments in the European Union suggest a slowdown in the European Commission's free trade negotiation pace.⁽²²⁾

**THE REGION IS
CONDUCTING DYNAMIC
TRADE POLICIES AND
SENDS STRONG POLITICAL
MESSAGES**

But the Asia-Pacific conducts dynamic policies

Nonetheless, the Asia-Pacific has remained a dynamic and attractive region when it comes to trade policy and the Trade Facilitation Agreement mentioned previously is a good example of this.

While the agreement only recently entered into force, 25 of the 114 countries that have ratified the agreement originate from the Asia-Pacific. Said differently, in fact, all countries – part from Papua New Guinea – that belong to the ASEAN or to the APEC have already integrated the TFA to their domestic systems.⁽²³⁾

Thus, while the world appears to have difficulties dealing with barriers to trade, Asia-Pacific countries seem to be determined to move on with more trade.

**AN OPPORTUNITY TO
REPLACE U.S. LEADERSHIP
WITH REGIONAL DYNAMICS**

In addition, the pace at which countries in the Asia-Pacific Region have been involved in negotiating and concluding free trade agreements points at a strong determination to ease and foster cross-border trade.

According to Asian Development Bank data, the development of free trade agreements in the region has been very significant. While there were no FTA negotiations between 1975 and 1999 (despite 38 agreements being in force), a rapid acceleration occurred from the year 2000 with 10 ongoing negotiations by 2003, more than 40 in 2007, 60 in 2013 and nearly 70 as of 2016.

By 2015, 21 bilateral agreements had been signed amongst East, South and South-East Asian countries alone (against none in 2000). During the same period, even more

(21) See 'US Protectionism Tops TPP Demise as Threat to APAC Growth' (Fitch, January 2017).

(22) As already witnessed for the Australia – EU negotiations. See 'Timeline for Australia-EU free trade deal extends as Europe eyes new realities' (The Sydney Morning Herald, March 2017).

(23) These include Hong Kong, Macao, China, Singapore, Malaysia, Japan, Australia, Korea, Chinese Taipei, China, Lao, New Zealand, Thailand, Brunei Darussalam, Vietnam, Myanmar, Cambodia, Philippines, The Russian Federation, Mexico, Peru, Chile, Canada, the United States.

significantly, 59 agreements were signed between East, South and South-East Asian countries with non-Asian Countries. By 2016, 147 free trade agreements were signed and in force. (24)

Interestingly however, a shift has appeared in the way those negotiations have been operated. While 10 to 16 agreements were being signed every year between 2004 and 2012 (against 3 in 2003), the numbers dropped significantly in the next years.(25) This, in fact, could be interpreted as a sign of greater regional integration since, at the same period, large initiatives aimed at developing regional scale free trade agreements were being negotiated. This is notably the case of the TPP agreement negotiated between 2008 and 2015 by 12 countries in the region and the RCEP agreement negotiated since 2012 between 16 countries including the 10 ASEAN members.

The ASEAN is involved

The ASEAN, in fact, has been doing significant efforts over the past decade.

The ASEAN Free Trade Area (AFTA) has for instance been lowering intra-regional tariffs through the Common Effective Preferential Tariff (CEPT) Scheme since January 2003, which led to eliminating tariffs on 64.12 percent of the regionally traded products by the end of that year. According to the ASEAN, the average tariff for ASEAN-6 under the CEPT Scheme is now down to 1.51 percent.(26)

In terms of non-tariffs negotiations – market access liberalisation – in addition, the ASEAN has been involved in negotiations with India (since 2002), South Korea (2004), Japan (2008), Australia and New Zealand (2009) and China (ongoing).

All in all, the members seem determined to look ahead and, notably, have recently released a ‘ASEAN Economic Community Blueprint 2025’ plan aimed at introducing strategic measures for the AEC from 2016 to 2025.

**MORE REGIONAL
INTEGRATION, MORE
VOLUNTARIST POLICIES, MORE
POLITICAL LEVERAGE**

(24) Asian Development Bank Asia Regional Integration Center (2017).

(25) Id.

(26) See www.asean.org

The APEC is sending strong political messages

The APEC organisation – 21 countries which represented around 30% of the world population, realised about 50% of worldwide trade and approximately 60% of world GDP in 2015 – is particularly playing a role. Politically, at least.

Saying no to protectionism. First, whilst President Elect Trump announced in November 2016 that his first measure when entering the White House in 2017 would be to withdraw from TPP so as to preserve US interests first, the APEC leaders (including President Obama) were meeting in Lima, Peru. And, in Lima, the Asia-Pacific took a firm stand against protectionism.

'We reaffirm our commitment to keep our markets open and to fight against all forms of protectionism by reaffirming our pledge against protectionism through a standstill commitment that we agree to extend until the end of 2020 and to roll back protectionist and trade-distorting measures, which weaken trade and slow down the progress and recovery of the international economy'.⁽²⁷⁾

In other words, whilst the G20 refused to take a stand on the matter and President Trump relinquished US leadership on global trade policy and rule-making, the APEC leaders – including China – could take over, replacing US leadership with new regional dynamics.

Furthering regional developments. Second, when discussing trade and investment challenges and opportunities in Lima, the APEC Leaders also insisted on the necessity to increase regional integration and connectivity by, amongst other priorities, further pursuing the Beijing's 2014 Roadmap aimed at creating the wide Free Trade Agreement of the Asia Pacific (FTAAP).

As a reminder, although the content and scope of this agreement is far from precise, the FTAAP was last year described as a future counter-TPP agreement and, at some point, led us to ask a series of questions as to whether parallel TPP and FTAAP discussions amounted to a trade and influence game of thrones.⁽²⁸⁾

As of today, however, the FTAAP is only a broad project which will not materialise before years.

RCEP AS A 'NEW' TRADE OPPORTUNITY

BEIJING INCREASINGLY PLAYS THE REGIONAL AND GLOBAL LEADERSHIP CARD

(27) 2016 APEC Leaders' Declaration, Lima (November 2016).

(28) See note 11 above.

Voluntarist policies on global trade initiatives. Third, and as mentioned above, the APEC is taking the lead on implementing larger initiatives. Four days after the entry into force of the Trade Facilitation Agreement (TFA) on February 2017, the Organisation has put itself in the shoes of a regional leader and, in a communiqué, has announced its decision to ‘mov[e] quickly’ towards implementing this agreement.⁽²⁹⁾

The point is important.

Politically – and particularly given the protectionist nature of current international relations – it shows the region’s determination to move on and push trade facilitation and market-opening initiatives on a large scale.

Economically, in communicating openly on plans to modernise regional custom systems in line with new global standards, APEC leaders commit themselves to ‘make it easier for businesses to trade in the region [and] to reduce the time and cost of customs’.

Regional political leverage. Whilst the TFA initiative is expected to increase global trade by up to USD 1 trillion annually, chances are that the Asia-Pacific countries’ decision to play the trade-openness card will picture the region as being even more dynamic and progressive. As a result, this strong political positioning is giving the region an important political leverage.

As a reminder, furthermore, the region is also benefiting from certain effervescence at the moment. The emergence of China’s One Belt One Road (OBOR) project - even though it is currently largely imprecise - is attracting tremendous attentions and promises to increase trade and infrastructure investment from China to Europe through roads, rails, the air and sea. China, in addition, has over the past years developed various reforms aimed at increasing foreign investors’ access to mainland capital markets to compensate for significant capital outflows lately, at the stock market level and at the bond market level.⁽³⁰⁾

Hence, there could be an argument towards greater capital liberalisation in the region.

Last but not least, with the end of the TPP agreement, many comments have resuscitated the Regional Comprehensive Economic Partnership (RCEP) – once criticised for its lack of

**AMERICA’S TRADE PARTNERS
ARE ALREADY REACTING,
WITH VARIOUS LEADERS
MAKING IT CLEAR THAT
TRADE NEGOTIATIONS WILL
CONTINUE**

(29) ‘APEC Leads Breakthrough Trade Pact Implementation Push’, APEC News Release, Nha Trang, Viet Nam, 26 February 2017

(30) See The Asia-Pacific Circle, ‘The Hong Kong - China Bond Connect?’ (April 2017) available at <https://goo.gl/csY3z>.

ambition - involving ASEAN countries with Japan, India and Korea and by the same token pictured the Asia-Pacific region as a growing policy-maker in relation to global and regional trade. Importantly, in reality 7 of the TPP partners are already part of the RCEP negotiations.⁽³¹⁾

China, as a matter of fact, has already started to play the leadership card. Whilst the notion of free trade has long opposed the US to China – with Washington consistently pointing at Beijing for a lack of opening on trade issues⁽³²⁾ – Chinese President Xi and Premier Li have increasingly and repeatedly insisted on their forthcoming role as free trade leaders. In January 2017, President Xi called for a new multilateral ‘stable and balanced’ global order while, in March 2017, Premier Li reiterated the approach with a clear “we don’t want a trade war’ statement.⁽³³⁾

At the same period, Beijing finally warned against US positions questioning the WTO dispute settlement body, as previously mentioned.

In short, whilst the region is already economically dynamic, future development prospects combined with a political decision to reject protectionism and a political commitment to further free trade talks are therefore sending the message that the Asia-Pacific is gaining leadership.

**2017 COULD BE AN
OPPORTUNITY TO PUT THE
ASIA-PACIFIC, AS A REGION,
ON THE TRADE LEADERSHIP
TRACKS**

More trade partners to come

In fact, and as already mentioned in the past on Circle's Asia-Pacific analyses,⁽³⁴⁾ America's trade partners are already reacting, with various leaders making it clear that trade negotiations will continue.

Long described as a TPP-winner, Vietnam has warned that it would further market-opening policies anyhow. Representatives from Peru, the Vice-Minister of Trade for Chile admitted looking at other regional development options, the Prime Minister of New Zealand insisted that 'even if the US doesn't want to engage in free trade, President Trump needs to know other countries do'. Meanwhile, commentators have reported a series of measures being proposed within the Mexico Congress as retaliation to current policy shifts in the US.

(31) Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam.

(32) The United States Trade Representative currently lists 9 disputes with China before the WTO, thus making the US-China relationship the most tense of all. See Office of the United States Trade Representative, ‘2017 Trade Policy Agenda – The President’s Trade Policy Agenda’.

(33) See, ‘China pledges to lead the way on global trade’ (The Financial Times, November 2016) and ‘Premier calls on Washington to find common ground amid simmering tensions over a raft of issues’ (South China Morning Post, March 2017).

(34) The Asia-Pacific Circle, ‘Trump's TPP & trade policy will make China politically great again’(December 2016) available at <https://goo.gl/rB6yQ2>.

Australia has announced the commencement of trade negotiations with Hong Kong in May, and European countries similarly demonstrate an increasing interest for the region. The negotiations on a free trade agreement with Vietnam have been concluded on February 1st, 2017 while the agreement negotiated in 2014 with Singapore is currently waiting to be approved by the EU Commission.

Needless to say, of course, that the EU already has a significant amount of trade discussions and agreements in place with various countries in the Asia-Pacific region, including South Korea, Australia, Chile, Peru, Mexico, Russia - not to forget Canada with CETA. An investment agreement is also being negotiated between the EU and China, who have particularly agreed to 'improve market access opportunities for their investors by establishing a genuine right to invest and by guaranteeing that they will not discriminate against their respective companies'. (35)

Hence, while financial commentators have not missed the opportunity to talk about a European 'trade pivot' towards the Asia-Pacific, it appears that the region could, one way or another, benefit – rather than suffer – from current protectionist development worldwide.

**THE REGION COULD BENEFIT
RATHER THAN SUFFER**

V | So...

So, protectionism has always been a political habit - not to say necessity, in fact - and it is likely to remain a major aspect of international relations in the future. Of course, many efforts are made to break barriers but, in the main, the very idea of liberalisation and increased market access is to facilitate opportunities globally. Hence, there will always be a need for protection, one way or another.

As far as the Asia-Pacific region is concerned, however, protectionism as it is currently developing - particularly in the West - might actually be a chance.

The most recent threats have come from the United States and Europe, and while Washington will have to manage and mitigate an isolation risk, Europe will also have to face its own internal tensions.

Of course, the protectionist trends in the West will not have an immediate impact on the Asia-Pacific as, in reality, agreements will take a long time to deliver results. Negotiations take tremendous time and implementation, if any, also requires adaptation and will necessitate even more patience.

(35) 'EU and China agree on scope of the future investment deal' (European Commission, January 2016).

The current shifts, nonetheless, will send the message that from a political point of view the Asia-Pacific emerges as a region and progressively builds its own leadership. Hence, in the medium term, the Asia-Pacific will gain in terms of global trade leadership and development.

From a business point of view, the shifts will send the message that the region will remain dynamic and progress oriented. Hence, in the longer term and from an economic perspective, the Asia-Pacific will benefit from this change in trade dynamics.

An important question will need to be tackled, however.

With technological progress reducing the economic benefits provided until now by Asian outsourcing opportunities, it is likely that the Asia-Pacific region will not gain from current developments if it only capitalises on cheap labour and fast production models. This means, clearly, that in addition to creating positive and stimulating trade policies, the region will have no choice but to invest massively in innovation and in tomorrow's industries. Failing which, it will lose its advantages.

**ANOTHER QUESTION WILL
NEED TO BE CONSIDERED**

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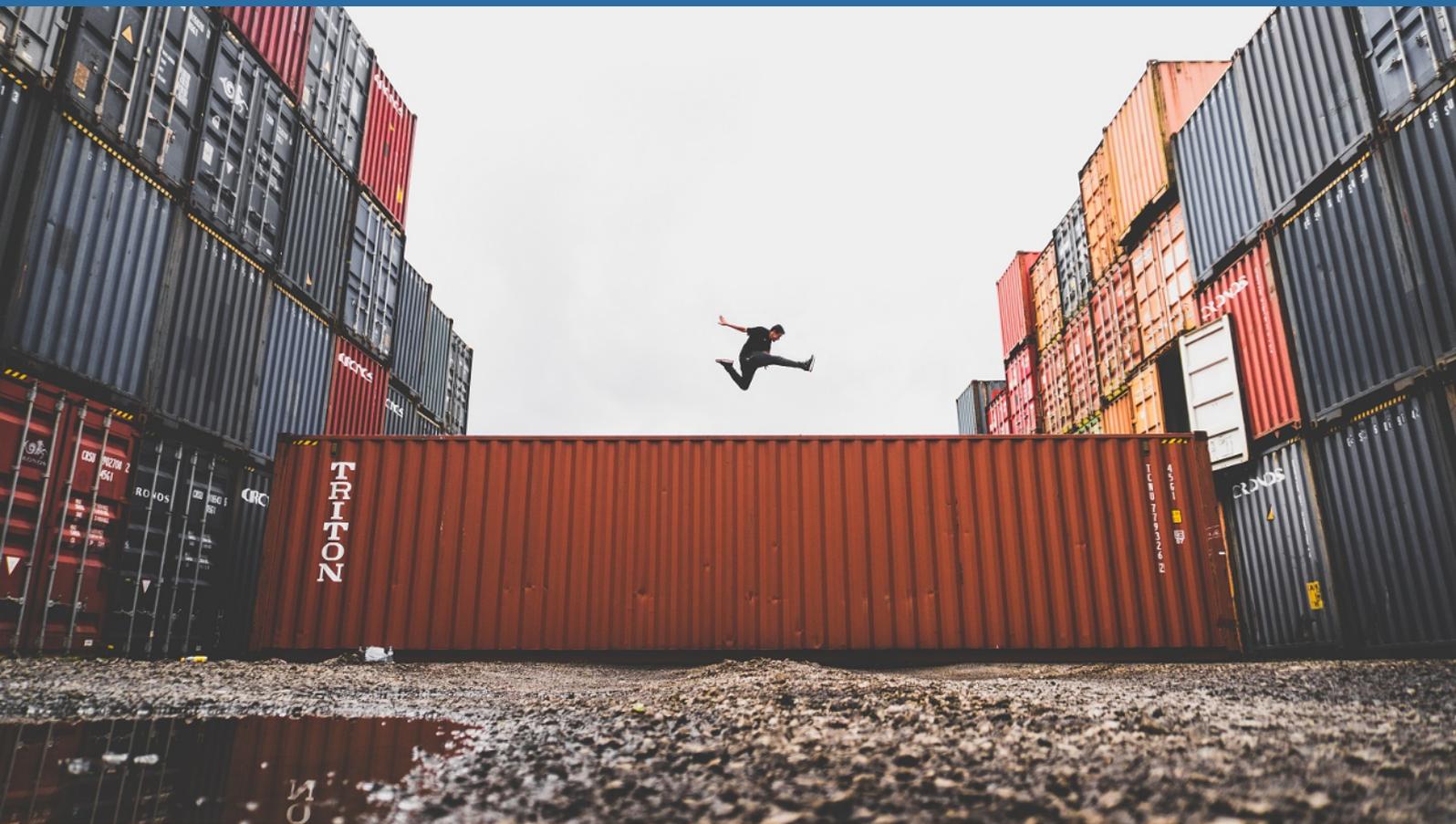
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