



Trump win gives China keys to Asian economic integration

Beijing calls for closer regional ties as US prepares to turn its back on trade deals

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When US President Barack Obama sits down with Xi Jinping and other Pacific Rim leaders in Peru this weekend, he may feel he is handing the Chinese leader the keys to the global economy.

For years Mr Obama's efforts to hammer out the Trans-Pacific Partnership (TPP), a trade pact with Japan and 10 other countries that together account for 40 per cent of the world economy, have dominated discussions at gatherings such as this weekend's Asia-Pacific Economic Cooperation summit. Through the TPP, as well as mooted deals with the EU and others that excluded China, his administration pushed to erect a strategic ring of trade alliances to contain Beijing's rise.

But Donald Trump's presidential victory — and the antitrade rhetoric of a campaign pitched to disgruntled blue-collar voters in rust-belt states — have brought that to an end. China is wasting no time in moving to seize the role of lead advocate of economic integration in the Asia-Pacific region from the US.

Rather than Mr Obama's TPP, the focus among Apec's 21 member countries in Lima will be Mr Xi's ambitions for an even larger Free Trade Area of the Asia Pacific. Another Chinese-backed trade deal that has been a rival to the TPP will also be discussed.

At the heart of the Chinese leader's pitch is a new reality for countries looking to strengthen economic ties in the world's fastest-growing region. "You can't beat something with nothing and the Chinese are offering something," says Adam Posen, head of the Washington-based Peterson Institute for International Economics.

It is still early days for China's proposed FTAAP, which would stretch from Latin America to Indochina and include the US. Leaders and ministers in Lima will see a China-initiated study on how it might come to fruition and consider how to proceed.

For years, the US hope was that it could get ahead of China by offering the TPP as the main building block of an FTAAP. All 12 TPP members belong to Apec.

But China is proposing another rival to the TPP that is closer to completion — the Regional Comprehensive Economic Partnership. Launched in 2013 by the 10 members of the Association of Southeast Asian Nations in an attempt to merge the group's trade deals with China, India, Japan and others, it is now a Beijing-led project. Importantly, it also excludes the US.

Although RCEP includes seven of the 12 TPP countries, experts in Washington and elsewhere see it as an old-fashioned deal likely to deliver only a modest reduction in tariffs and trade barriers. Unlike TPP, it does not contain ambitious rules covering areas such as the conduct of state-owned enterprises or cross-border data flows.

But with Mr Trump's election, "countries have realised very quickly that (RCEP) is the only major Asia trade deal on the table", says Joshua Meltzer, a former Australian diplomat now at the Brookings Institution in Washington.

Not everyone is willing to give up on the TPP. Japan, New Zealand and others have been moving to ratify the deal, which cannot come into force without US approval. At the sidelines of the Apec summit, some leaders will discuss concluding the deal without the US.

After a meeting with Japan's Shinzo Abe this week, Malaysia's Najib Razak told reporters he hoped "the strategic importance of the TPP will be recognised by the incoming [US] administration" and that Mr Trump might eventually sign on.

But few believe that volte-face will happen. "It is very hard to say that there will be the same level of trust in the US after this," one senior official from a TPP country.

The consequences of the looming turnround in US trade policy are broader still.

Mr Trump's election bodes badly for an EU-US deal — the Transatlantic Trade and Investment Partnership (TTIP) — already facing political headwinds in Europe. It also is likely to kill negotiations to liberalise the global trade in services and environmental goods.

"The world does need US leadership. Without a TPP or a TTIP ... it doesn't look like western democracies are all that capable of pursuing trade agreements," says Dan Ikenson, director of trade research at the libertarian Cato Institute.

Even if that leaves a vacuum for China to fill, Trump backers seem nonplussed.

For too long the focus of US trade policy has been geopolitical rather than economic, they argue. The result has been the rust-belt deindustrialisation that laid the ground for Mr Trump's rise, they contend, and more important than hatching new agreements is enforcing existing ones or renegotiating them to benefit the US.

"The US has been positioning itself to be the good guy of trade and open markets since World War Two. I think now the US needs to discuss how it has been dealt serious disadvantages," says Phil English, a former Republican congressman from Pennsylvania who served as a Trump delegate to July's Republican convention. "I think this is going to be liberating."