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Talking Points for Discussion at the Asia-Pacific Forum

The US President-elect Trump's Economic Policy and Adjustments of the Indo-Pacific Economies

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President-elect Donald Trump's economic policy is expected to accelerate three main pillars of his first term presidency. Three pillars include a stronger protectionist trade policy with higher tariff than during Trump-I Administration, a major corporate tax cut, deportation of unauthorized immigrants, and a consequential strong dollar.

During the election campaign trail, Mr. Trump has made clear he will adopt these polices in much greater terms to create jobs and protect American industries, leading to "Making America Great Again." He proposed a tariff of 10-20 percent on all imports universally and 60 percent tariff on imports from China. Likewise, he will put "America First" when it comes to the US international economic agreements.

Under the proclaimed protectionist doctrine by the Trump presidency amid an acute high-tech rivalry between the U.S. and China, Asia-Pacific economies, for that matter the rest of the World, is likely to face unprecedented challenges due to unpredictable trade environment and thus further aggravating geoeconomic fragmentation already underway. Perhaps, from now on, trade protectionism is a rule rather than an exception. As a result, multilateral WTO system is being pushed helplessly at bay.

Trump's policy based on the high tariff on imported goods and the U.S. consumers' higher demand for domestic goods with reduced foreign imports in a full employment economy will exert upward pressure on prices. Then, to keep inflation under control, the Federal Reserve will increase the interest rate. As a consequence, we will see a stronger dollar. Then, the US exports will suffer. The Asia-Pacific economies have to adjust to the stronger dollar to recalibrate their currency policies. Their imports bill in the U.S. dollar terms will go up to cause inflationary pressure.

If China and Europe response with tit for tat retaliation to engage in tariff war with the U.S., the outcome would be even worse for the U.S. and its trading partners. Sluggish US export and little improvement of the trade deficit-if any--is likely to lead to higher inflation.

Trump has promised to extend the tax cut enacted in 2017. The corporate tax rate, which was reduced from 35 to 21 percent in 2017, be further down to 15 percent to help American businesses, especially manufacturing firms. Furthermore, Trump has promised to deport illegal immigrants, numbering around 11 million and may deport about 1 million a year. Total US employment is 160 million. Job vacancies are visible in service sectors.

In response to the Trumpnomics, full impacts of Trump-II's economic policy on Asia-Pacific economies also depend on how China reacts against the U.S. high tariff policy. All out trade war via China's tit for tat tariff retaliation will have further devastating consequences for most of Asian economies.

In 2021, seven of Asian economies are the top 10 trading partners of the U.S. to enjoy huge trade surpluses against the US. The trade surplus of each of those seven economies is recorded in the following order, indicating trade surplus in the US billion dollars as shown in the parentheses:

China (353.5), ASEAN (183.1), Japan (60.3), S. Korea (29.0), Taiwan (40.2), India (33.1), and Vietnam (90.9).

These trade surplus East Asian economies against the U.S. would be immediately impacted by the Trump's proposed tariff hike. One way or another, they need to trim down one-sided trade surplus vis a vis the U.S. by increasing strategic imports from the U.S. to tone down the U.S. high tariff policy.

Until the Obama Administration, the U.S. has played the champion role of liberal trade order post World War II, allowing lenient market access for developing countries in East Asia, more importantly with dollar power as the key international currency. In the years to come, there is no question about the global gravity of the US economic prowess in high techs and energy supply-now the US is a net total energy exporter since 2019 largely due to increases in natural gas. We should hope the U.S. play a role not to extinguish surviving legacies of multilateral trade order.

Many commentators argue that the lesson one can learn from the first Trump Administration is that the level of national savings, which falls short of the investment level, determines ultimately the trade deficit. The proposed tax cut will cause national savings rate to fall and thus increase the budget deficit. So both budget deficit and trade deficit would widen on a greater scale than before. We have already seen that Trump had experienced a disappointing inflation and federal budget deficit during his first term presidency. Many critics of the Trump's high tariff policy say that it will benefit other countries, promoting "America last" rather than "America First." (Marcus Noland, "The economic implications for Asia of the Trump Program," *Asia-Pacific Bulletin,* Number 706, Nov 2024)

It is well known that the results of the economic policies of Trump-I presidency were disappointing as far as the trade and budget deficits were concerned. Far from narrowing, the trade deficit increased by around 50 percent from $500 billion in 2016 to $680 billion in 2020. Meanwhile, the budget deficit approximately doubled in size between 2016 and 2019 before blowing out to some 15 percent of GDP in 2020 as a result of the Covid-19 pandemic (Desmond Lachman, "Trump Trade Policy Follies," AEIdeas, Nov 12, 2024)

After taking office for his second term, Mr. Trump is likely to see the widening of the trade deficit. It might entice Mr. Trump to double down on his aggressive import tariff policy. That in turn could invite aggressive retaliation by the U.S. trading partners and take all stakeholders further down the path to a full-scale and destructive international trade war.

Since the reduction of the US trade deficit is not feasible even in a longer term, Trump might back down from the original plan down the road of Trump-II Administration. But Trump views international relations on a transactional basis. Also he is a man of continuity on his belief that raising import tariffs will improve the U.S. trade balance. So there is a serious risk of unpredictable trade environment unfolding at least until his mid-term election. Furthermore, Mr. Trump is also going to scrap IPEF, proposed by the Biden presidency, moving away from even a glimpse of multilateral liberal trade order.

Given Trump's assertive and protectionist agenda , accompanied b y unpredictable trade landscape, how should Asia-Pacific economies prepare themselves to mitigate the negative impacts of the Tr ump's trade policy, which would vary across regional economies?

First, China's reaction against Trump's high tariff imposition might take a tit for tat tariff confrontation, milder retaliation or muddle through with some marginal adjustments toward compromised settlements. Depending on China's reaction, smaller Asia-Pacific economies are likely to suffer too. East Asia's smaller economies would not want to be forced to choose either the U.S. or China. All Asia-Pacific economies want to see the US and China to settle down the differences by searching through a compromised middle ground on high-tech competition.

Second, Asian economies would need to invoke "East Asian identity" by taking collective and coordinated efforts on the spirits of free trade principles by taking maximum use of existing regional or minilateral architectures to increase intra-regional trade and investment.

In fact, the Asia and Pacific economies have demonstrated that they are pursuing minilateral free trade agreements to live on comparative advantages. They have already agreed upon the high standards as observed in the CPTPP and lesser extent in the RCEP. For this purpose, the quality of RCEP needs to be upgraded to the level of the CPTPP to make it a significant free trade club, which the U.S. cannot shun away down the road.

Third, middle powers in the Asia-Pacific should align each other in many of multifaceted and multilayered minilateral architectures to make a rule-based inclusive regional order, surviving the era of protectionism. Often, both high-tech trade bans and "weaponization" of strategic materials under the security-trade nexus are practiced by big powers at the expense of smaller and less powerful economies. The demarcation line between security sensitive high-tech products and commercial high-tech goods are increasingly blurry. Trade bans along the security-trade nexus need to be openly discussed for an agreed framework.

Fourth, for an immediate economic effect, Asia-Pacific economies need to encourage intra-regional tourism by facilitating entry processes with some open sky agreements in the future.

Fifth, the Green growth model and digital trade mechanism should be encouraged among East Asian economies to create a constructive building bloc toward multilateralism to address global challenges.

All together, Asia-Pacific economies should stay on minilateral and regional alignments as diverse as possible not to demise the WTO multilateralism completely.