



Exploring the New Order of Global Trade amid the U.S. Trade Policy Shift

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After the U.S. President Donald Trump signed the memorandum to withdraw from the Trans-Pacific Partnership (TPP) agreement, the world's largest economy is no longer taking the lead on multilateral trade and investment liberalization. In the meantime, the Brexit referendum results and the rise of the far-right parties in Europe reflected the risks of widespread anti-globalism and protectionism in the European continent. That said, on 22 Feb 2017, the World Trade Organization (WTO) successfully implemented its first multilateral trade deal since its establishment for 21 years - the Trade Facilitation Agreement (the U.S. had accepted the agreement in Jan 2015). It affirmed the commitment of most WTO members to a multilateral trading system. At present, the Regional Comprehensive Economic Partnership (RCEP), which mainly comprises Asian economies, is the only mega free trade agreement (FTA) with potential to be realized in the foreseeable future. The 16 RCEP members are pushing forward the RCEP negotiations based on the principles of pragmatic cooperation and mutual interest. The deal will drive further integration of the trading network in Asia, providing a catalyst for the world economy.

The U.S. Trade Policy Shift

On 1 March each year, the United States Trade Representative issues the Trade Policy Agenda and Annual Report, which outlines the Government's Trade Policy Objectives and Priorities. Comparing the two reports in 2016 and 2017, a remarkable shift can be seen in the trade policy under the new government. In the 2016 report, it mentioned 'leadership' for a total of 21 times, highlighting that the U.S. leading position in the world economy would not only make America's economy stronger but also unlock opportunities for the rest of the world. It reflected the U.S. ideology of having common interests with the world economy. However, the 2017 report barely mentioned the U.S. leadership in the world economy and even stated that no clear benefit was seen from the global trading system. In particular, it added that the U.S. has long been suffering from high levels of merchandise trade deficits. The Trump Administration thus called for a new approach in trade policy, in order to expand trade in a freer and fairer manner for all Americans.

The 2017 Trade Policy Agenda lists out three major principles under the new approach. First, the U.S. will **focus on bilateral negotiations rather than multilateral negotiations**. Replacing the TPP by pursuing bilateral trade deals with the 11 TPP members was indeed the first signal sent by the Trump Administration in regard to the change in trade policy. President Trump had repeatedly stated that multilateral agreements could not ensure the interests of Americans, and he favored negotiating trade deals on a one-on-one basis, which could result in fair and best possible terms for the U.S. Prior to the U.S. withdrawal, the remaining 11 TPP members all expressed openness to revise the pact in return for the U.S. staying in the trade bloc. However, in the joint statement

between the U.S. and Japan after the official visit by Prime Minister Shinzo Abe, President Trump explicitly stated that Japan noted the U.S. decision of withdrawal from TPP, and both nations would deepen their trade and investment relations on a bilateral framework. It clearly pointed out the U.S. position of not pursuing a multilateral framework.

Second, the U.S. will **consider renegotiating and revising existing trade agreements**. The U.S. currently has 20 FTA partners. Among them, Mexico and South Korea were found to have relatively large trade surpluses with the U.S., ranking at the 4th and the 8th. The North American Free Trade Agreement (NAFTA) with Canada and Mexico already has over 20 years of history. Earlier in 2008, the Obama Administration had called for renegotiation of NAFTA, given the obsolete contents (particularly on labor and environmental standards). But Trump's view on NAFTA was rather different. He not only saw the trade deal as outdated but also unfair for American workers, as it encouraged corporations to relocate factories outside the U.S. As renegotiating NAFTA has long been incorporated into Trump's manifesto, it is expected that the Administration will kick-start the renegotiation shortly. Moreover, after the implementation of the U.S.-Korea FTA in 2012, the trade deficits with South Korea increased dramatically. The Trump Administration indicated that the trade figures with South Korea have not lived up to expectations, prompting the need for a major review. Estimates from the World Bank showed that the economies of South Korea and Mexico ranked at 11th and 15th worldwide. The reviews of NAFTA and U.S.-Korea FTA are likely to result in stringent terms and conditions on trade liberalization, which would impact the trading activities in North America and Asia.

Third, the U.S. will **address all unfair trade practices that put its economy at a disadvantage**. As a founding member of the WTO, the U.S. played an indispensable role in enhancing and preserving the institution. But the new Administration has a different view and places a high priority in defending the U.S. sovereignty over trade policy, in which the U.S. national laws shall take precedence over the WTO rules. A series of unfair trade practices were listed out, including: currency manipulation, government subsidies, theft of intellectual property and unfair competitive behavior by state-owned enterprises. On behalf of the Government, the Department of Commerce will review and follow-up these unfair practices. More trade disputes originated from the U.S. will be expected.

Trump's trade team consists of three major positions. They are Commerce Secretary Wilbur Ross, the head of the National Trade Council Peter Navarro, and the United States Trade Representative Robert Lighthizer. Their background and public speeches suggested that the trade team of the new Government would tilt towards trade protectionism. Current multilateral trade negotiations involving the U.S. include: Trade in Services Agreement (TiSA) with over 20 WTO members; Environmental Goods Agreement (EGA) which has 46 WTO members joining; and the Transatlantic Trade and Investment Partnership (T-TIP) with the European Union (EU). All negotiations above are likely to stall under the new Administration. With the needs to address the trade imbalance, the U.S. can hardly be expected to further liberalize its domestic market.

RCEP helps drive economic cooperation in Asia

Although the U.S. trade policy shift will impede a number of international trade deals under

negotiations, the Asia-centric trade deal - RCEP still stands a reasonable chance of getting concluded in the foreseeable future, providing impetus to global trade and investment liberalization. With most members relying on trade as principle economic activities, the 16 Asian members of RCEP have a more open and positive perspective for trade and investment liberalization. Before, TPP and RCEP had been in competition seeking to become another mega-FTA after WTO and EU. After the conclusion and signing of TPP, the prospects of RCEP appeared to be bleak. As 7 nations were within the coverage of both TPP and RCEP, there were fewer incentives for them to continue RCEP negotiations after the signing of TPP. Also, other nations can apply for accession to TPP after the trade deal is in force, without resorting to further negotiations of RCEP. Nonetheless, with the sluggish development of TPP and the rise of protectionism, there are both necessity and urgency for implementing RCEP shortly, especially most RCEP member states have sounded out the need to expedite the progress of RCEP.

In regard to the impacts of RCEP, the number of FTAs in Asia has been on the rise in recent years. Asian products already enjoy very low levels of tariff under the umbrella of numerous FTA frameworks, so the actual benefits of tariff cuts from RCEP are rather limited. Instead, RCEP creates a set of common trade rules for all 16 members, reducing the administrative costs for corporations, boosting cross-border trading activities as well as increasing the utilization of the mega-FTA. Hence, RCEP is not merely about reduction in tariffs but also providing a mega-platform which executes uniform trade rules and standards. Thus, RCEP helps alleviate the complex rules of origin brought by multiple and overlapping FTAs, allowing corporations to reap the benefits of free trade zone and deepening the integration of value chain activities in Asia.

On the other hand, the quality of RCEP is often described as not superior to TPP, since issues like labor rights and environmental protection are not included in its scope. However, these areas should indeed be governed by national policies. For advanced economies, enforcing high standards of labor and environmental regulations can certainly be achieved without great difficulties, but applying the same standards for developing economies in Asia is rather unrealistic. Furthermore, giving up too much national sovereignty will increase operating costs for businesses as well as potentially lead to internal instability, which poses risks of future conflicts. Therefore, RCEP is a more appropriate form of a trade bloc for member states in Asia, as it accounts for the members' national situations and the differences in development levels.

2017 is the 50th anniversary for ASEAN and the 60th anniversary for EU. Obviously, EU has gone much farther than ASEAN in terms of economic integration, but its weaknesses also loom along with the rise of populism. The EU system is built on strict and legally binding treaties. The EU Court of Justice is the highest authority on a variety of matters. While upholding the concept of rule of law, member states lose sovereignty over national policies. For instance, the quota system for the distribution of refugees has led to anti-EU sentiment in some member states. As for ASEAN, the integration process has been gradually progressing, but the ASEAN Charter affirms the national independence of each member states and the principle of non-intervention. By promoting economic partnership in a pragmatic manner, it creates less resistance in the course of integration and allows for gradual liberalization into more areas. Similarly, the core advantage of RCEP is to focus on economic cooperation but not political issues, and thus resulting in less controversies and higher acceptance.

The Future Development of Economic Globalization and Free Trade

According to the WTO's estimates, world merchandise trade volume grew modestly by 1.7% in 2016, lower than the 2.8% growth in its previous projection. The growth forecast in 2017 is also lowered to range from 1.8% to 3.1%, slightly better than the performance in 2016. As per the economic data up to March 2017, major economies showed signs of stabilization in terms of growth and demand. China reported yearly growth of export and import by 4% and 26% (in US\$) in the months of January and February; The U.S. reported yearly growth of export and import by 9% and 12% in January. Should this momentum continue, the overall global trade growth in 2017 is likely to reach the upper limit set by the WTO.

Under the new order, there are still tremendous uncertainties for global trade. Before the end of March 2017, the UK will invoke Article 50 of the Treaty of Lisbon and begin the Brexit negotiations. At the same time, the UK seeks to start a FTA negotiation with EU. Prior experiences found that EU has not concluded any FTA talks within two years, so it will be an arduous task for the UK to complete both Brexit process and a new FTA talk in such a tight schedule. And, whether President Trump will implement protectionist measures is another major source of uncertainties for the world economy. Particularly, he said during the election campaigns that the application of tariffs was under consideration to improve the trade deficits. Also, there were media reports revealing that Trump's tax reform proposed to include a border adjustment tax, which would indirectly tax import goods to balance the national tax cuts. Definitely, these measures will hinder the growth of global trade.

Over decades, trade growth driven by globalization has created various economic miracles, helping a myriad of countries to progress from low-income to middle- and high-income economies with significant improvements on standard of living and poverty reduction. Currently, many developing nations are still in need of an open trading system, which will provide them with capital for job creation and productivity enhancement, hereby upgrading their economic development.

On 22 Feb 2017, the WTO reached a major milestone for enforcing the Trade Facilitation Agreement (TFA), which is a trade deal aiming to enhance transparency on laws and regulations, simplify, standardize and expedite customs procedures. It will help lower costs and improve operating efficiency for corporations. Based on the WTO's estimates, full implementation of TFA could reduce trade costs globally by an average of 14.3% and boost global trade by up to US\$ 1 trillion each year. Among WTO members, poorest countries are expected to be the biggest beneficiaries under the new scheme. In this connection, other than tariff reduction, standardization and integration of global trading system and procedures can also serve as drivers for improving efficiency and reducing costs for global trading activities, which helps to foster development of regional trade.

To conclude, amid mounting protectionism in the U.S. and Europe, if globalization goes into reverse, developing nations are expected to suffer the most. And, the obligation of defending the international trade and economic integration has been handed over eastward to the Asia Pacific. If the Asia Pacific nations could speed up the implementation of RCEP to deepen their economic cooperation, it will become a major driving force for economic development in the region and the world, promoting a further step forward in global free trade.

主要經濟指標 (Key Economic Indicators)

	2015	2016	2016/Q3	2016/Q4
一. 本地生產總值 GDP				
總量 (億元) GDP(\$100 Million)	22,464	23,586	6,359	6,769
升幅 (%) Change(%)	2.4	1.9	2.0	3.1
二. 對外貿易 External Trade			2017/1	2017/1
外貿總值 (億元) Total trade(\$100 Million)				
港產品出口 Domestic exports	469	429	32	32
轉口 Re-exports	35,584	35,454	2,931	2,931
總出口 Total exports	36,053	35,882	2,963	2,963
進口 Total imports	40,464	40,084	3,086	3,086
貿易差額 Trade balance	-4,411	-4,201	-123	-123
年增長率 (%) YOY Growth(%)				
港產品出口 Domestic exports	-15.2	-8.5	-5.3	-5.3
轉口 Re-exports	-1.6	-0.4	-1.1	-1.1
總出口 Total exports	-1.8	-0.5	-1.2	-1.2
進口 Imports	-4.1	-0.9	-2.7	-2.7
三. 消費物價 Consumer Price			2017/2	2017/1-2
綜合消費物價升幅 (%) Change in Composite CPI(%)	3	2.4	-0.1	1.5
四. 樓宇買賣 Sale & Purchase of Building Units				
合約宗數 (宗) No. of agreements	76,159	73,004	5,615	10,835
年升幅 (%) Change(%)	-6.5	-4.1	117.4	89.9
五. 勞動就業 Employment			2016/11-2017/1	2016/12-2017/2
失業人數 (萬人) Unemployed(ten thousands)	12.2	12.2	12.1	11.9
失業率 (%) Unemployment rate(%)	3.3	3.3	3.3	3.3
就業不足率 (%) Underemployment rate(%)	1.4	1.4	1.3	1.2
六. 零售市場 Retail Market			2017/1	2017/1
零售額升幅 (%) Change in value of total sales(%)	-3.7	-8.1	-0.9	-0.9
零售量升幅 (%) Change in volume of total sales(%)	-0.3	-7.1	-1.4	-1.4
七. 訪港遊客 Visitors				
總人數 (萬人次) arrivals (ten thousands)	5,931	5,665	548.0	548.0
年升幅 (%) Change(%)	-2.5	-4.5	4.8	4.8
八. 金融市場 Financial Market			2016/12	2017/1
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	775.1	775.6	775.6	775.9
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	15.4	12.3	12.3	8.1
M2	5.5	7.7	7.7	7.9
M3	5.5	7.7	7.7	8
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	6.7	9.1	9.1	8.8
港元存款 In HK\$	10.7	9.4	9.4	12
外幣存款 In foreign currency	3.1	8.8	8.8	6
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	3.5	6.5	6.5	8.6
當地放款 use in HK	3.5	7.4	7.4	8.8
海外放款 use outside HK	3.6	4.5	4.5	4.5
貿易有關放款 Trade financing	-16.3	0.2	0.2	0
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	21,914	22,000	22,000	23,361