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INTRODUCTION

The world of regional trade agreements (RTAs) is being re-designed in ways not yet clear to all. Press reports on some US trade policy decisions provide a confusing view as to the objectives of president Trump administration in this area, and “politics” continue to influence developments in the European Union and elsewhere. At the same time, other countries seem to be moving ahead with some initiatives - such as [the Trans-Pacific Partnership \(TPP\)](#) and [the Regional Comprehensive Economic Partnership \(RCEP\)](#) – which may help keep some momentum in global trade cooperation.

Voluntarily or not, President Trump and developments in Europe are forcing a fundamental reordering of global trade policy. Britain’s [vote to abandon](#) the European Union, for its part, will remove the world’s fifth-largest economy – the United Kingdom - from Europe’s vast single marketplace.

Elsewhere, regional trade agreements are maintaining some momentum. Indeed, as reported by The Economist, no matter how the uncertainties [regarding the North American Free Trade Agreement \(NAFTA\)](#) are dealt with, Mexican officials say [they have stepped up efforts](#) to finish a trade deal with the European Union by the end of the year. And while [the Transatlantic Trade and Investment Partnership \(TTIP\)](#) may have been temporarily put aside, the EU is moving forward with trade talks with Japan and the ASEAN countries of South-East Asia, as well as with Australia, New Zealand and Chile.

Even if Shinzo Abe, Japan’s Prime Minister, has called the TPP “meaningless” without the US, Japanese officials are busy garnering support to revive the deal, as the advanced trade rules contained in the TPP are too valuable to waste. Even the RCEP, may be taken by China as an opportunity to show regional leadership, and help to keep it moving forward more decisively.

But many of these initiatives are still to be materialized. What we currently see is a tendency – and not only in the US – to replace trade cooperation by trade confrontation, and to put bilateral deals ahead of multilateral ones to achieve international trade goals, as underlined in this issue of the News Digest.

US TRADE POLICY

President Trump’s record on [trade policy during the first hundred days of his administration](#) remains mixed. Mr Trump has withdrawn the US from the TPP, but has neither labelled China a currency manipulator nor made progress in renegotiating NAFTA. President Trump did however, sign an Executive Order “directs US agencies to “scrupulously monitor, enforce, and comply with Buy American laws”—mandates that public projects use domestically-produced iron, steel, and manufactured goods—and minimize waivers and exceptions,” which goes against the free trade spirit that the United States has traditionally supported.

As pointed out recently by the editors of East Asia Forum (EAF),¹ the election of Mr Trump to the White House has changed many things, but perhaps none so drastically as the international trade policy environment.

Some may think that this is a passing moment, and that US leadership in international trade and economic policy can be quickly restored. But there is little doubt that the certainties that the post-war trade regime, and the primacy the multilateral order delivered are now vastly less certain. The response to this new circumstances, continue the commentators from the East Asia Forum needs to start by recognizing the [importance of the global economic rules](#) to both economic and political security, especially in the Asian region where skewed resource endowments makes prosperity impossible without deep trade dependence.



Source - Peter Horvarth, *the Financial Times*

As Razeen Sally says there is now a strong interest in pushing collective leadership from Asia, and the ASEAN-led RCEP is a primary vehicle for achieving this goal. East Asia must now champion the meta-objective of securing an open global system, including through a successful conclusion of the RCEP negotiations and ongoing economic cooperation that is open to the world beyond Asia, including the United States.

I. MOVING ON NAFTA

As if seemingly pressed by the first-hundred days target², President Trump told the leaders of Mexico and Canada on Wednesday that he would not immediately move to terminate NAFTA, only [hours after an administration official said](#) he was likely to sign an order that would begin the process of pulling the United States out of the deal.

The breakdown of trade with Canada and Mexico as implicit in President Trump threat to withdraw from – soon replaced by re-negotiating – NAFTA, are not difficult to imagine. As underlined by a piece in the New York Times recently, a rupture to trade with those two countries would disrupt [the global supply chain](#) that NAFTA has encouraged over the years, jeopardizing factories in the United States that depend on [imported components in making their wares](#). It could cost jobs in the name of saving them.

¹ The EAF Editorial Group is comprised of Peter Drysdale, Shiro Armstrong, Ben Ascione, Ryan Manuel, Amy King and Jillian Mowbray-Tsutsumi, and is located in the Crawford School of Public Policy in the ANU College of Asia and the Pacific.

² Every US president has been judged on the effectiveness of his first 100 days—the stretch of just over three months after his inauguration that arguably sets the tone for the rest of his time in office.



Source - Getty Images

Not that NAFTA is sacred. It was signed into law by President Bill Clinton in 1993, and would benefit from an update. [A serious re-renegotiation would afford an opportunity to address existing gaps.](#)

Canada and Mexico [have been ready to launch negotiations](#) for some time, but the US has not engaged, partly because the nomination of Robert Lighthizer as US trade representative has been held up in Congress. Under existing US law Mr Trump needs to give Congress 90 days' notice of any trade negotiation. But he can do so only after his USTR visits Congress.

The US business community remains optimistic, however, and expects a basic accord over reworking NAFTA to be reached by the middle of next year, said recently Thomas Donohue, president and chief executive officer of the US Chamber of Commerce, as business leaders and policymakers were increasingly aware of the need to get a new deal [and move on without disrupting business.](#)

Meanwhile, trade irritants continue to plague relations between the NAFTA partners. Alongside dairy farmers, the US launched an investigation of imported steel, of which Canada is the biggest single supplier (see [article](#)), and on 24 April the United States' Commerce Department imposed preliminary duties averaging 20% on imports of Canadian softwood lumber, used to build houses.

Canada is bracing for the possibility that Mr Trump may carry out his most aggressive threats. One response is [to diversify trade away from the United States:](#) an agreement with the European Union is due to take effect this year; Canada is also holding exploratory talks with China and India, and it may join a revived Trans-Pacific Partnership. But freer trade with far-flung countries cannot make up for bad ties with Canada's neighbour.

II. REVIEWING THE WTO

The Trump administration is expanding its re-examination of longstanding American trade policy, launching a broad "performance review" of [the World Trade Organization \(WTO\)](#) with an eye toward addressing what officials call "structural problems" at the global body.

There's an institutional bias on their part [toward the exporters](#) rather than toward the people that are being beleaguered by inappropriate imports, Commerce Secretary Wilbur Ross told reporters in announcing the study.

The pending WTO report is the latest in a growing list of studies that the White House launched in recent weeks as officials vow to take a hard look at decades of bipartisan free-trade agreements. But Mr. Trump's aides say he is laying the groundwork for the prospects of dramatic change. And the [potential challenge to the WTO](#) could have the most significant repercussions. In a mid-April speech, Mr. Trump branded the WTO as another one of "our disasters", and during the presidential campaign he raised the prospect of the US pulling out of the global body created in 1995.

Mr. Ross was asked repeatedly whether the administration was considering following up on that threat, and declined to answer directly. "I didn't say it was on or off the table," he said, though he suggested the administration's preference was to try to force change at the WTO, rather than to abandon it. [There's always the potential for modifying the rules](#), he said.

III. THE BILATERAL ROUTE

President Trump administration's trade advisors argue that greater dependence on bilateral — rather than multilateral — trade agreements will enable US negotiators to craft provisions that provide maximum advantages for US exporters and consumers. Not everybody agrees.

Bilateral trade agreements do come with some problems, says Gary Clyde Hufbauer, senior fellow at the Peterson Institute for International Economics. "First, bilateral agreements take a fair amount of time, and probably more time [in this case] since [the Trump administration's demands](#) are significantly higher than [in] prior free-trade agreements..." And while some predict that future bilateral deals might be struck with Japan and particularly the UK, that's not going to happen any time soon Hufbauer says. In both cases, the negotiation process would also be fraught with challenges.

In the case of the UK, "We won't really know what we'd be getting until they finish up their exit from the EU. That's at least two years [into the future], and could be longer, and that's well into the Trump administration."

On the other hand, supporters of the TPP had argued that one of the 12-nation trade agreement's greatest virtues was that it opened Japanese markets to U.S. exports. Hufbauer argues that there is "no doubt" that the US ["would have been better off within the Trans-Pacific Partnership"](#) than it will be in the event of a bilateral agreement with Japan.

IV. TRADE DISPUTES

On trade disputes, the US is moving ahead and a lot is at stake. On April 19th, Mr Trump's administration seemed to take matters into its own hands, starting an investigation into whether steel imports are a threat to national security. A similar probe into aluminium imports was announced shortly thereafter, and the US has also imposed duties averaging 20% on imports of Canadian lumber.

Wilbur Ross, the commerce secretary, who oversees these investigations, has indicated that cheap metal imports are undermining America's skills base and its ability to mount a rapid military build-up if needed, and his department has 270 days to assess the problem and recommend action.



Source - Aaron P. Bernstein, Reuters

As pointed out by the Wall Street Journal, the US administration launched the steel investigation under a trade law that was regularly invoked in the 1970s and 1980s to justify curbs on imports ranging from machine tools and semiconductors. But [the law has rarely been invoked since the 1995](#) creation of the WTO, which was designed to discourage countries from claiming such wide latitude to restrict imports. And supporters of the WTO are seriously concerned. Chad Bown, a trade expert at the Washington-based Peterson Institute for International Economics (PIIE), describes the Trade Expansion Act, the law from 1962 the Trump administration has invoked, as the “nuclear option”, adding that “it calls the whole rules-based system into question” and gives the president huge discretion.

For his part, James Bacchus, a former chief judge for the WTO (and a former congressman), worries that if [the US looks for excuses to violate trade rules](#), other countries will too. The WTO law only succeeds if those who are bound by it engage in mutual self-restraint. As pointed out by Joseph Nye, the recent trade and other economic measures prompted by President Trump would make [the stability of the multilateral institutions](#) that help manage the world economy and global commons more uncertain.

THE FUTURE OF THE EUROPEAN UNION

With the twin shock of Trump's election and Britain's vote to leave the European Union, EU trade chief Cecilia Malmstrom has said there has never been a more important time [to defend openness](#). As other doors are closing, we should be clear to them (trade partners) that ours will remain open.



Source - The Financial Times

But the European Union also has internal issues. In France's presidential election, the European Union - the oldest and most significant regional agreement - became the defining fault line of a new political order. On one side stood Mr. Macron, and his call for deeper EU integration; on the other was Ms. Le Pen, an avowed opponent of the EU and its common currency.

[“You have an alternative](#), the real one,” said Ms. Le Pen on Sunday. The major issue of this election is runaway globalization, which is putting our civilization in danger. Mr. Macron said he wanted to become the standard-bearer of a governing majority that can re-launch the EU, I want to be the president of patriots against the threat of all the nationalists, he told his supporters.

And the Brexit negotiations, set to begin in the coming weeks, could prove a distraction and exhaust resources and political capital. Above all, the EU itself needs to sell free trade to a sceptical public after battles over the TTIP and CETA, which critics across the continent argued were stacked in favour of multinationals.

The lesson from the TTIP and CETA battles is that the EU needs to go beyond plain economic arguments and stress fair as much as free trade, with EU values on environmental and labour standards also included, including commitments to sustainability or to International Labour Organization (ILO) standards.

The fact is that with a seemingly more protectionist U.S. trade policy and the planned EU-US trade accord (the TTIP) now in deep freeze, the European Union has turned its attention to elsewhere in the Americas and Asia-Pacific region for [partners wanting closer trading ties](#).

[The EU and Japan](#), which account for more than a third of the world's gross domestic product, launched negotiations for a bilateral trade agreement in March 2013 and, held a 18th round of talks on 3-5 April 2017. Japan is the world's third-largest economy, and the EU's sixth-biggest export market. For its part, the EU ranks as the third-largest destination for Japanese goods. Japanese Prime Minister Shinzo Abe and EU leaders committed to concluding talks as rapidly as possible and ideally this year.

The [EU and Mexico](#) have an existing trade agreement dating from 2000, which removed tariffs on industrial goods. However, the two are set to update it to include services, more agricultural products, more in public procurement, intellectual property and rules to tackle non-tariff barriers. The EU is Mexico's third largest trading partner, and Mexico is keen to diversify and rely less heavily on the United States, the destination of some 80 percent of its exports.

In the case of an [EU-Mercosur](#) bilateral agreement, talks began in 1999 but have stalled at various stages. They were re-launched in earnest this year with the aim, according to Argentinian Foreign Minister, [to reach an agreement by the end of the year](#). The Mercosur group includes Argentina, Brazil, Paraguay and Uruguay, and ranks as the world's fifth largest economy. The EU is already the number one trading partner for Mercosur, principally importing agricultural products; and for the EU, Mercosur is its 10th largest export market for goods and eighth largest for EU services.

[The EU is also negotiating trade deals with other Asia-Pacific countries](#); it has agreements signed with Singapore and Vietnam and is in talks with Indonesia and the Philippines - as well as with India. It also plans to open talks with Australia and New Zealand.³

³ For graphic on EU trade talks, click: tmsnrt.rs/2pzabB4

I. THE BREXIT PROCESS

Divorce proceedings are never easy, and the Brexit process may not be an exception. Whereas at the beginning, soon after the results of the British referendum, a rather optimistic view of the negotiations with the EU prevailed in Britain, a quite different approach developed in the other members of the European Union.



Source - Christopher Furlong

A fortnight after Britain filed for divorce from the EU, the outcome of the two-year process is delicately balanced. Brexit is bad news, but in a happy scenario, the UK and the EU 27 will come away [with an agreement that they believe serves their respective interests](#) reasonably well.

As pointed out by The Economist, where Brexiteers see a “liberation”, for the EU’s other members Brexit is strictly an exercise in damage control. In essence, the EU wants to clarify and guarantee the [rights of their citizens in Britain, and vice versa](#); ensure that Britain meets its outstanding financial commitments to the EU (the so-called “Brexit bill”); avoid creating a hard border between Britain and Ireland; and strike a trade deal that does not grant Britain overly generous access to the EU single market.

And all the signs point to a difficult negotiation, It seems that the most conflicting and decisive [issues in the Brexit negotiations would be mainly three](#): first, citizens’ rights, which must cover everything from employment, eligibility for benefits and the conditions for permanent residence, among others; second, the so called “Brexit bill” and its coverage – including Britain outstanding financial commitments to the EU; and third, the nature of the post-Brexit trade relationship between the UK and the EU, and the timing to negotiate and implement the new arrangements.

Britain’s objectives in the negotiations have been known right from the beginning. The formal EU [negotiating stance was given a more definitive form at the EU summit meeting](#) that took place on 29 April. For the EU, the Brexit timetable is clear: the first issues to be discussed are the content and amount of the “Brexit-bill”, and citizen’s rights – an issue that both, the UK and the EU are interested in solving as quickly as possible.

Only [when sufficient progress is made on these. two issues](#), would the EU accept to start discussing the trade arrangements that would be implemented in a post-Brexit environment. But this is not going to be the easiest of the issues. As the German Chancellor, Mrs. Angela Merkel, said before the EU summit, the UK should be under no illusion that it would have the same benefits it enjoyed as a EU member.

A successful Brexit negotiation may leave Britain [looking much like an EFTA country](#): a rich economy with close links to Europe, but also seeking trade deals elsewhere. It is superficially an attractive prospect. Yet EFTA's half-in-half-out relationship with the EU hinders its trade as much as it helps. EFTA's flexibility in trade stems from its odd relationship with the EU. Switzerland has a series of bilateral agreements, whereas Norway, Iceland and Liechtenstein are part of the single market through the European Economic Area (EEA), but all are outside the EU's customs union, an agreement which regulates tariffs charged to third countries. This allows them to strike other trade deals.

EFTA has made the most of this power. The group has 27 free trade agreements and, in addition, individual states have bilateral deals. [EFTA tends to make trade deals faster](#) than the EU. Similarly, once outside the EU customs union, Britain may be able to reach faster deals. Britain is a much bigger market than EFTA. But it will still be in a far weaker negotiating position outside the EU than as part of the single market. Moreover, EFTA also shows that, besides offering uncertain benefits, an independent trade policy brings large costs...The idea of going it alone in international trade negotiations may be more appealing than the reality.

II. TTIP

When Donald Trump's commerce secretary, Wilbur Ross, last week [reopened the door](#) to negotiations with the European Union over the TTIP, pro-trade media across Europe rejoiced. Broadly, Ross's comments were seen as yet another sign that President Trump's trade policies would not live up to his protectionist rhetoric, and as an indication that Mr. Trump would not try to actively undermine the EU. Yet, [upon closer inspection](#), the new US stance on the TTIP is nothing to be happy about from a European perspective, according to a report from the European Council on Foreign Relations (ECFR).

The positive economic effects of a possible agreement had been anticipated to be rather low, and critics have pointed out that [the planned chapters for investment protection](#) would risk undercutting European countries' ability to regulate markets for consumer protection, social, or environmental reasons. The European Commission had long ignored this criticism, insisting on the legal mandate that it had been given by the member states to negotiate the deal. But the anti-TTIP mood turned, to a certain degree, into an anti-EU-mood. Since then, the balance has shifted for the EU, and not in a direction favourable to it. Politically, negotiating a trade agreement with the Trump administration will be very costly for the EU institutions; and the least bad strategy would be for the European Commission to delay any negotiations, then define strict red lines for them.

Cecilia Malmström, the EU's trade commissioner, visited Washington for her first face-to-face talks with Wilbur Ross, the Trump administration's commerce secretary. It was just the latest reminder that, contrary to [the empty promises of certain UK government ministers](#), the US cannot — and will not — put a post-Brexit Britain “first in line” for a trade deal.

All the same, as Ms Malmström pointed out, there is still a case for an ambitious trade agreement between the EU and the US, the two largest economies in the world, and such an agreement has the [potential to create jobs on both sides of the Atlantic](#), she said in Washington.

TRANS-PACIFIC PARTNERSHIP

Japan is ready to relaunch the TPP minus the US in a shift of position that could bring the huge trade deal back from the dead. According to officials who work on trade, Tokyo is now ready to proceed

[without much change to the existing TPP text](#), a big departure from its previous reluctance to expose Japanese farmers to a surge of agricultural imports without offsetting ease of access to the US auto market.

The decision could be a huge boon to non-US food exporters such as Australia and change the [dynamics for trade deals in Asia](#) by offering an alternative to the China-centred RCEP.

When US vice-president Mike Pence visited Tokyo last week he declared: “The TPP is a thing of the past for the United States of America.” Despite that, however, another motivation for Tokyo is to lure the US back.



Source - Getty Images / The Economist

“The US may lose from the TPP-11 (the TPP without the US) because of trade diversion effects,” said

Mr Kawasaki. Officials in Japan hope that business interests in the US will therefore encourage Washington to come back to TPP eventually, even if that proves impossible while President Trump is in office.

RCEP

The RCEP was launched in November 2012, with the aim of establishing deeper economic cooperation among the 10 ASEAN members and six trading partners: China, India, Japan, South Korea, Australia and New Zealand. The potential member countries of the RCEP represent 29% of global trade.

The world needs RCEP. [Global trade needs a win to fend off rising tides of protectionism](#) and anti-globalisation, and the RCEP offers the best ammunition to achieve this. Having missed deadlines twice, RCEP is apparently not an easy agreement to conclude but has been put on a fast track: [ASEAN and Japan have vowed to speed up talks on the pact](#), fearing that US protectionist trade stance may bring negative impacts.

Commerce Minister Apiradi Tantraporn, speaking after returning from the ASEAN Economic Ministers (AEM) Roadshow to Japan 2017 held on 6-9 April, said that ASEAN economic ministers and Japan's leader have agreed [to work for an early establishment of the RCEP](#) and conclude the pact's negotiations by the end of this year.