



ICAS Issue Primer

Topics in US-China Relations

Donald Trump's Victory: Implications for US-Asia Relations

Not since Harry Truman registered a surprise, come-from-behind victory over his Republican challenger Thomas Dewey in 1948 has an American presidential election delivered such a stunning upset. On November 8, 2016, Donald Trump defeated his Democratic Party challenger Hillary Clinton in a bruising race, despite having trailed in virtually every authoritative poll in the months leading into the election. As it happens, when the votes are officially tallied, Trump will likely end up with an almost identical electoral college total to that of Truman (306 for Truman's 303).

How did Trump Win the Election?

President-elect Trump's victory can largely be ascribed to the hollowing-out of basic manufacturing in the American heartland. This has stirred deep resentment among predominantly white men *and* women (more white women voted for Trump than Clinton) in affected communities against mainstream politicians, their elitist backers, and foreign interests. This was manifested in a hardline view against international trade and immigration. This '*whitelash*' has bubbled to the surface against the larger backdrop of stagnant incomes and rampant inequality. Real median household incomes in 2016 remains below 2000 levels and even as high up as the 95th percentile of the wage ladder, incomes have registered a modest 45 per cent rise over the past four decades. Wages of the top 1 per cent, meantime, rose 180 per cent over the same period. Just as important, the US has suffered the second-largest increase in male non-participation in the labor force since 1990 among OECD countries and economists foresee the size of this cohort rising to a quarter of all working age men by mid-century.

Implication #1: Declining US Leadership

Donald Trump's unabashed pandering to this aggrieved voter base as well as the long-standing consistency of his (much less-noticed) anti-trade convictions bear implications for Washington's Asia—and China—policy. First and foremost, America appears to be turning inwards. Weighed down by its socio-economic problems,

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the US may lack the will, and increasingly the capability, to lead the international order. This inward turn will most negatively impact the rules-based international economic order. The Trans-Pacific Partnership (TPP) agreement has already become the earliest and most notable victim. TPP in its current form will not be resurrected either under Trump or a successor administration.



Trump has been very critical of trade agreements like the TPP.

Implication #2: Rise of Protectionism

The next most important implication is America's likely turn towards protectionism. To restore employment in American manufacturing, Trump has promised to raise tariffs on Chinese exports to levels well above the US' World Trade Organization (WTO) treaty obligations as well as leverage the full force of American trade remedies measures—and even perhaps emergency economic powers—against Chinese trade flows. The anticipated economic and legal retaliation will not stymie his inclination (though could moderate it). Ever since his days as a young real estate developer in Manhattan in the 1980s, it has been an article of faith that Asians (Japanese, at the time) are instinctively mercantilist and deceitful in their international trade practices. The imposition of steep tariffs on Japanese motorcycles (45%) and semiconductor products (100%) by Ronald Reagan in the pre-WTO era remains his go-to playbook. The deep US-China trade frictions that will arise are likely to rub off on the bilateral investment side as well, where the American case for restraints on Chinese state-linked companies' US acquisitions as well as more reciprocal access to China's inward direct investment market stand on much firmer ground.

Implication #3: Danger of Currency War

Third, the remainder of Trump's economic philosophy, much of which is standard Republican/Reaganomics fare (genuflecting to deregulated private markets and the '1%'), will roil currency markets if implemented. In the short-term, loose fiscal policy and tighter monetary policy at a time of depressed aggregate global demand would draw capital flows into the US. Over the longer term, federal government debt sustainability concerns balanced against dollar-as-safe-haven considerations would exert downward pressure on the dollar. Imposing illegal countervailing duties after designating China to be a 'currency manipulator' would compound these trade and currency problems and could lead to bouts of extreme volatility in forex markets.

Donald J. Trump's 7 Point Plan to Rebuild the American Economy by Fighting for Free Trade

1. Withdraw from the Trans-Pacific Partnership, which has not yet been ratified.
2. Appoint tough and smart trade negotiators to fight on behalf of American workers.
3. Direct the Secretary of Commerce to identify every violation of trade agreements a foreign country is currently using to harm our workers, and also direct all appropriate agencies to use every tool under American and international law to end these abuses.
4. Tell NAFTA partners that we intend to immediately renegotiate the terms of that agreement to get a better deal for our workers. If they don't agree to a renegotiation, we will submit notice that the U.S. intends to withdraw from the deal. Eliminate Mexico's one-side backdoor tariff through the VAT and end sweatshops in Mexico that undercut U.S. workers.
5. Instruct the Treasury Secretary to label China a currency manipulator.
6. Instruct the U.S. Trade Representative to bring trade cases against China, both in this country and at the WTO. China's unfair subsidy behavior is prohibited by the terms of its entrance to the WTO.
7. Use every lawful presidential power to remedy trade disputes if China does not stop its illegal activities, including its theft of American trade secrets - including the application of tariffs consistent with Section 201 and 301 of the Trade Act of 1974 and Section 232 of the Trade Expansion Act of 1962.

Source: Donald J. Trump, *Declaring American Economic Independence*

https://assets.donaldjtrump.com/DJT_DeclaringAmericanEconomicIndependence.pdf

Implication #4: Embracing Isolationism

Fourth, the foreign and national security policies of Trump's America could assume both a more isolationist character as well as a willingness to devolve greater responsibility to other major powers and partners to manage global and regional challenges. While defense preparedness will not be sacrificed, big-picture strategic calculations in Europe and Asia will take a backseat to the application of force to eliminate more immediate (and potentially self-inflicted) existential threats. Radical Islamist extremism stands at the head of this existential queue. In the Asia-Pacific, the presumed strategic freeriding by allies and partners—the essential enabler of their trade policy deceitfulness in Trump's long-held worldview—will manifest in harsher demands for financial and military burden-sharing. While legal defense obligations to allies will be honored in full, a more hands-off policy towards Asia's foreign relations would diminish confidence in American resolve among its non-allied regional partners, particularly in Southeast Asia. Over time, such irresolution and inattention would call into question America's long-term staying power in a leadership or co-leadership role in Asia – in turn, opening the door to less adventurous and more constructive approaches on the part of the ASEAN countries in their diplomatic ties with China.

Implication #5: Denial of Climate Agreement

Fifth, the hard-fought recent gains in US-China and multilateral cooperation on climate issues faces a moment of peril. Climate denialism and regulatory abhorrence forms a rare point of concurrence that unites Trump's nativist, blue-collar base with his elitist backers within the Republican Party. As he fails to deliver on his quixotic jobs re-shoring and immigration-related promises to his nativist base, unravelling the delicate thread that ties America's peer-based and non-enforceable, action-for-action Paris Climate Change Agreement commitments offers a low-cost sacrificial path instead. Voiding Paris will further erode the United States' 'soft power' standing, which has already taken a beating during the sordid election campaign.

- Sourabh Gupta with Peter Liang