



Anthony Saich
The US Administration's Asia Policy
(Summary)

Date: 15 November, 2016

Venue: CIGS Meeting Room, Tokyo, Japan

Anthony Saich, Distinguished Visiting Scholar, CIGS; Professor of International Affairs, Director of the Ash Center for Democratic Governance and Innovation and the Rajawali Foundation Institute for Asia, and Faculty Chair of the China Program, Harvard Kennedy School: I will talk first about the background shaping the US-China relationship, and then about what Mr. Trump may do in his presidency.

Background Issues Affecting the US-China Relationship Right Now

Most of Mr. Trump's key advisors are people who have been very hawkish with relation to China. We have to bear in mind that every Republican administration that has come in has offered a tougher stance towards China, and a view which might be more sympathetic towards Taiwan, but increasingly, over time they all move back towards a more central ground.

There are two important points to keep in mind. The first is that moving forward, for the first time in a couple of centuries, the largest economy in the world will not be a western economy, and it is going to be under a leadership that does not share the same consensual values and political structures as those in the West. This had led to many analytical publications recently in the US that suggests perhaps the US should shift its policy away from engagement to fostering a relationship, or perhaps even containing China. That seems to be much more aligned with what Mr. Trump and his advisors were saying in the run-up to the election.

Second, for the first time, the world's largest economy will not be the country that enjoys the world's highest living standards and quality of life. China, as we know, will continue to contain large pockets of poverty. It also has an economic strategy in place that its own leadership no longer feels to be effective. It will undergo significant change. And some of the policies which have been proposed by Mr. Trump will make that difficult. On the other hand, that suggests that perhaps Mr. Trump will have more capability to be able to push China.

Another issue is that China has become a central player within the South Bloc of the economy in Asia, and in competition to that, the US previously promoted the Trans-Pacific Partnership (TPP), but it is now extremely vulnerable given Mr. Trump's comments during the election campaign.

How the Trump administration deals with these issues is going to be crucial to determining the nature of the relationship the US has with China and Asia.

Two Approaches to Asia – 1: Economic Asia

The division between an economic Asia and a security Asia is not so clear anymore. Some recent trends have confused this dichotomy. The TPP was the link between the two.

The Chinese economy is slowing. It may be difficult for the country to switch to a new growth model. Low end manufacturing is moving to other destinations such as Vietnam and Bangladesh. What all this suggests is that when the Trump administration talks about manufacturing jobs being stolen by China, it may be fighting a war that is already in the past. That industry is already beginning to move out of China and relocating to Vietnam and Bangladesh.

The economic slowdown in China is also slowing down the demand for natural resources within the region. This is having a major impact on countries such as Indonesia and Australia. If you look at some of the export figures earlier this year, exports to the US increased in five of the six SEM countries in the earlier part of this year whereas shipments to China declined in four of those countries: Malaysia, Thailand, Vietnam and Indonesia.

China has grown in influence, and there are indications that its influence could increase further still. Its economy is underpinned by the BRICS bank, the AIIB, and One Belt One Road, all of which are aimed at drawing China's neighbors into its economic sphere and influence.

James Woolsey, someone who is likely to be an advisor to the new administration, has said that he doesn't believe the AIIB is a threat to the US, and has even criticized the Obama administration for not embracing it. It would raise two interesting challenges if the Trump administration became involved with the AIIB. First, it would leave Japan as the only significant US ally that has not joined. Second, there is the issue of funding. It is impossible to imagine that Congress would approve a move by the Executive Branch to financially support the AIIB. Mr. Trump may not want to push ahead with that anyway considering his concerns about the deficit issue.

The US certainly looks to have a diminished influence on the global, financial, and economic stages in the future. This will impact US influence in other crucial areas of debate around global public goods.

Two Approaches to Asia – 2: Security Asia

The one clear area of dominance the US still has is its military prowess. That said, China is becoming much more aggressive within Asia.

This is clear in the territorial disputes that have occurred over the last few years. In 2013, the foreign minister, Wang Yi, sent a message to neighboring countries stating that they had become priorities for China and that China intended to build a community of shared destiny in Asia, centered on China. The potential for Chinese aggression in relation to this caused the tightening of US alliances in Asia, which in turn China began to see as deliberate containment. Chinese leaders have been moving to weaken US influence in the region.

Chinese leaders have tried to ensure that communication channels remain open to countries such as Japan, but they are also aware that Japanese investment into China has been dropping. If US investment also drops significantly, there will be very significant problems for the administration in Beijing.

On the other hand, it is not clear that US alliances will continue to be strong. Chinese influence is growing in Thailand. Myanmar is in a difficult position and needs to figure out how to deal with China. And President Duterte in the Philippines has really turned his back on the US. He has seemed swayed after a visit to Beijing by the allure of considerable loans and investment from China. There is also the case of Malaysia, where the Prime Minister recently signed US\$34 billion of deals to buy four Chinese naval vessels.

The TPP and the Future of US Trade Agreements with Asia

The key link that has been tying together economic Asia and security Asia has been the TPP. Mr. Trump has made it clear that he will block the TPP. He will not go ahead with it.

If the TPP is not created and China continues expanding its set of trade agreements in the region, the new administration risks ceding economic, trade, and a degree of security leadership to China. That will irritate a number of allies in the region and undermine key components of US attempts to exert influence in Asia. Mr. Trump will have to do something. He might settle for renegotiation rather than pulling out of the TPP, but it's going to be difficult. Furthermore, killing the TPP entirely might create some opposition within the Republican Party, as many Republicans are positive about these kinds of trade agreements. It might also set up challenges for him with security operators that the

TPP is an important part of US engagement within Asia. This is why I think he may try to renegotiate it and bring in China in the process.

The Trump Presidency and its Position on China – What it Will Not Do

Mr. Trump has been harsh in his comments about China. He has said that the US is losing jobs and losing out on trade to China. He also said that the US has facilitated a major part of China's economic rise, and seemed inclined to see this as a threat to US interests moving forward, although again, some of his advisors in the last couple of days have been stressing the positive aspects of US-China deals.

Mr. Trump was cooler on Asia than Ms. Clinton during the election, and very hostile towards the TPP. He also suggested that South Korea and Japan should pay more for the US military presence in each country and even suggested that they should develop their own nuclear arsenals.

In May 2016, Mr. Trump accused China of raping the US in trade policy and being responsible for the greatest theft in the history of the world. Conversely though, he has also said that he had done great deals with China, and that China was wonderful. It is sometimes difficult to discern what Mr. Trump's positions are. On the campaign trail, he claimed that China was a currency manipulator and that he would impose a 45% tariff on Chinese goods entering the US. He said that he would rip up trade deals and pressure China on lax labor and environmental standards. He also said that he would protect the IP of US companies in China and punish US companies that outsourced jobs to China, and that he would deal with cyber security.

I don't think that very much is going to happen for two of these statements, which are the accusation of China as a currency manipulator and the imposition of a 45% tariff on Chinese goods. The first statement has wide support among Republicans. It's a very easy statement to make, but it's not going to have much effect. If, on the first day in office, Mr. Trump says China is a currency manipulator, what does that do? It authorizes the treasury secretary to engage in negotiations with his counterpart in China. But that's already going on and it has been going on for considerable period of time. Any action would depend on whether US consumers would be willing to accept more expensive goods from China.

The second issue is the 45% tariff. Mr. Trump later said that he didn't really intend to do that. There are problems with the idea. First among them, the President doesn't have the authority to do that. The power to do that lies with Congress, which I think is unlikely to

go along with it. Secondly, should it actually be implemented, under WTO rules, China would be able to levy very large penalties against the US. Some people have calculated this would amount to about US\$225 billion for legitimate trade retaliation. So it seems to me unlikely that's going to happen. So these two ideas are not going to happen, but that doesn't mean that nothing is going to happen.

The Trump Presidency and its Position on China – What it Might Do

Two of Mr. Trump's advisors wrote an article recently where they said that Mr. Trump would have a two-pronged strategy. The first idea they put forth was that Mr. Trump would never sacrifice the US economy on the altar of foreign policy by entering into a bad trade deal like NAFTA, or allowing China into the WTO or the passing of the TPP. Secondly, they put forth a policy of peace through strength – the idea that Mr. Trump will rebuild the military. They claimed that the US Navy is the greatest source of regional stability in Asia. That is interesting in the context of the rumors that the Secretary of the Navy position could go to Randy Forbes, who has been pushing for a very long time for a rapid expansion of the number of ships in the US Navy.

In terms of economics and trade, I think that issues of IP and cyber security will get more traction in the Trump administration. I think there has been a shift in attitudes about things like this in the business world. In the past, US business groups did not often criticize the treatment of US businesses in China, but if you look at US Chamber of Commerce reports recently, they are much more negative and outspoken in their criticism of the way the US companies are treated there.

In some ways, the US may actually have more leverage than is often understood. Millions of jobs in China depend on the continued willingness of US consumers and the US government to keep importing cheaper products made in China. Thus, while China wants more opportunities to invest in the US, the US wants to end discrimination against US companies and wants fair protection for their intellectual property. China's growth until today has been dependent on a strong and stable US that is willing to trade with the world. If Mr. Trump passes protectionist plans, it will have a very significant impact on the Chinese economy, as well as the Asian economies that provide inputs to their export economy.

Trade intervention could increase US growth, and it might reduce US unemployment. It would certainly make China's economic adjustments even more difficult, and that could result in higher debt in China. It could result in rising unemployment within China.

Mr. Trump has been talking about a 10% tax on the repatriation of profits for US companies overseas. I think this would have unforeseen consequences that would counter his other policy objectives. China, to a large measure, has tried to pressure foreign businesses to invest as much of their profits within the country as possible rather than repatriating them. With this drop in the tax, it would increase the current trends that we are seeing toward more capital outflows. This could strengthen Yuan depreciation pressures, which is the opposite of what Mr. Trump has been talking about. If that is combined with protectionist trade policies, it may strengthen the dollar, and this might widen the US trade deficit, which of course Mr. Trump is trying to reduce.

Trump's Challenge

The challenge that Mr. Trump is going to face is the question of how to balance his mercantilist campaign pledges and solemn isolationist tones with the need to engage with the fastest growing economies in Asia, in particular China, while maintaining traditional alliances in the region.

It is hard to know what Mr. Trump will do. The key idea to remember is that Mr. Trump himself has said he wants to be an unpredictable president. There are contradictions in what he has said he will do at one time or another, and I believe those contradictions will be tempered by the desires of the main core of the Republican Party. He will have to balance his America First ideas with the need to keep allies on board with US policies as well as the need to maintain a strong working relationship with China. As a result of that, we may see, over time, his policies drift closer to the policies that the US has had in place for China over the last 30 years. It is unclear whether the 'Trump effect' will make any difference on US-Chinese relations.