

# A Brave New World for Trade

**Céline PAJON**

The global environment for trade is undergoing significant changes. New emerging players such as China are aiming to adapt the rules and institutions inherited from the postwar Bretton Woods system. With the administration of Donald Trump, the US is revising its international posture to adopt a more inward-looking and unilateral attitude under the motto of “America First” that jeopardizes the dynamics for multilateral engagements and more liberal and ambitious norms for trade. Against this background, major economic powerhouses such as the EU and Japan are adjusting their strategy to fight back against protectionism and to uphold high-level principles for future practices for trade.

This note offers the main conclusions of the discussions held during a conference at Ifri, on November 15, 2017.

## America first and Global Trade Last

The trade policy of the Trump administration, walking out from the TPP and calling for the negotiations or renegotiations of FTAs such as NAFTA or KORUS in order to better defend US national interests is highly destabilizing for the international trade system.

It provides negative signals to the US allies and partners, in particular in Asia, as Japan and others already ratified the TPP, and consider it not only as an economic tool but a strategic mean to write the liberal rules and press China to adapt to them.

This “America first” policy might also not be in the very own interests of the US. For example, some provisions Trump is calling for (the automatic end of a FTA after 5 years) are harmful for the business sector.

Finally, the US relinquishing its leadership over global free trade is providing space for other players, such as China, to step in and defend its own version of “free trade”.

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## The Rise of China and its Challenges

The rise of China is disrupting and has to be managed. China is not yet a market economy; however, it is already the second economic power in the world and is deeply integrated into the Global Value Chains and trade system.

The State intervention in the economy is still heavy; State Owned Enterprises (SOEs), overcapacities, disguised subventions and “zombies” are all elements pointing to an unbalanced development of the economy and fragilities.

The Belt and Road initiative (BRI) is one of the strategies designed by Beijing to cope with these issues by exporting overcapacities and creating more open markets along the roads to Beijing. However, the success is not guaranteed and some Chinese experts already criticize the BRI for precisely delaying the important structural reforms the Chinese SOEs and banks have to conduct to become sound and viable. In this perspective, the pressure put by foreign governments on Beijing is an important factor to effectively encourage the reforms.

Despite this reality, China is still claiming Market economy status. The US and most of the European countries are now opposed to it.

## Japan's proactive role to uphold global trade rules

In the current context, the role of Japan appears very important.

Japan has already had a dynamic policy of concluding far-reaching FTAs (called Economic Partnership Agreements - EPAs). Tokyo showed its unwavering support to the TPP by taking the lead to move forward a TPP with 11 members, with the expectation that the US administration will decide to join it in the future. As such, the TPP 11 appears as a constructive step forward for the liberal trade.

In Asia, Tokyo is also supporting the Regional Comprehensive Economic Partnership (RCEP). While RCEP and the TPP are not of the same nature – the former allowing a traditional liberalization of trade while the TPP is an ambitious scheme to make norms and regulations converge (on the social and environmental sectors, among others) – some Japanese experts present the first as the “antechamber” for the latter. For such experts, intra-regional FTAs should be upgraded to trans-regional, mega FTAs.

Outside of Asia, Tokyo also showed its political willingness to advance the global trade agenda by accelerating the negotiations for a EU-Japan FTA, announced in July 2017. This agreement appears as a “deterrent” against the US bilateralism.

## The existential crisis of the WTO

Against this tumultuous background, the WTO system has been in limbo for more than a decade.

While the rounds of negotiations are no longer able to deliver concrete results on trade liberalization, the dispute settlement mechanism is under huge pressure and difficulties, attracting numerous critics. In particular, the US considers that the WTO ruling is overstepping its capacity when it calls for Washington to change its domestic regulations. This encroaches, according to several experts, the very sovereignty of the State, and explains the reluctance of the US to comply. This US concern might come from a cultural bias that considers the judge as a facilitator only. In the European countries, the approach is different as there is the common understanding that the judge may constraint the State sovereignty.

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The US turning away from the global trade system is highly destabilizing. As no alternative player seems to be able to take over the lead yet, we see the increasing fragmentation of the players and practices.

In this context, the EU is weakened by the Brexit. As the negotiations are lingering, it poses a real concern to foreign companies such as Japanese firms that moved to the UK with a view of using it as a springboard to the EU. It also prevents the EU from really playing a full role in the global trade context. The EU has to take a decision about its future path: to support the coming back to regional blocks and the marginalization of WTO, or to act as a true global leader on the trade agenda.