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The pros and cons of US withdrawal from TPP

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Just a day after United States President Donald Trump abandoned the Trans-Pacific Partnership (TPP) on Jan 24, I happened to take part in a trade panel discussion held in Singapore. In a keynote speech, a former high-ranking US trade negotiator reputed to be close to Mr Trump emphasised that the new administration is pursuing "smart trade" and elaborated on it as follows:

"It would be a mistake to think that there will be a complete break with the past. None of the Trump administration appointees has indicated that the US would jettison its trading relationships. Also supporting continuity in US trade policy is the outlook of the Republican leaders in Congress. They are convinced of the benefits of a rules-based international trading system... Like President Trump, many in Congress are looking for a better deal."

What does he mean by "a better deal"? The Trump administration and "many in Congress" now seem to argue that previous US administrations had made bad deals and they should be rectified, though belatedly. In my view, they are actually pushing for "even better deals".

Let us look back on the history of global trade deals. The launch of the World Trade Organisation in 1995 was a watershed in those deals. Before then, the General Agreement on Tariffs and Trade (GATT) was the governing framework of global trade deals under the umbrella of the Bretton Woods system.

It is undeniable that GATT was a great leap forward for free trade and away from the protectionism exercised during the Great Depression. But GATT allowed room for protection and subsidies for developing countries. On the financial side, it accepted capital controls as a norm, not an exception. The new elements introduced in the WTO regime were financial liberalisation and stronger protection of intellectual property rights, while removing most of the room for protection and subsidies for developing countries.

For free trade dogmatists, the economic performance of the world should have been better during the WTO regime than the GATT regime. However, the reality was the opposite. The world economy grew at a rate of 3.9 per cent on average from 1961 to 1994

and growth rate fell to 2.9 per cent from 1995 to 2015.

History tells us that the freest trade does not necessarily guarantee maximum growth of the world economy. It also tells us that the launch of the WTO regime and various other initiatives to further liberalise the world economy, including TPP, had, at best, a marginal effect on global economic growth. In this respect, Mr Trump's dumping of TPP and his intended revisions of other trade agreements themselves would not have strong negative effects on the world economy.

This will even have positive effects by becoming a wake-up call to circles of global policymaking elites and academics about the risks of being obsessed with the free trade dogma. Individual countries will now have to start thinking seriously about what levels and forms of free trade are best for their own national interests and will have to negotiate them on new ground.

However, this wake-up call does not mitigate a feeling of unease and unfairness among US trading partners, because it was the US that was the main initiator of the WTO deal and other free trade agreements. It is unimaginable that previous US administrators were stupid enough to push for bad deals for the US and dishonest enough to declare them as "successes".

East Asian countries that had accumulated manufacturing capabilities for exports accepted the deals, with many allowing freer access to US financial interests on their soil in return for maintaining their access to the US market.

Other less developed countries were simply deprived of their rights to exercise protection and subsidies for their local incipient industries. Compared to the deals during the GATT regime, the deals during the WTO regime were generally better deals for the US.

Mr Trump is, however, asserting that they were bad deals for the US

and that the loss of jobs in the US was mainly due to the unfair trading system and unfair trading practices exercised by its trading partners. From the viewpoint of its trading partners, the US is currently pushing for even better deals for itself through unilateral decisions and accusations. They cannot help but feel betrayed and bullied. It will be a tall order for the US to re-establish trust with these countries.

Today's problems seem to be exacerbated by the difficulty of predicting what Mr Trump will do by examining what he has said. The global economy is suddenly facing uncertainties emanating from the most powerful president in the world.

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