

Bothered by Borders Is Globalization Dead?

Jan 25, 2017

- In this instalment of *Weekly Wander*, let's talk about the state of global trade, now that its loudest sceptic, Donald Trump, has assumed office – and officially endowed with the power to probably cause quite a bit of a ruckus.
- Now that he has pulled the US out of TPP and is bent on renegotiating trade deals starting with NAFTA, anyone who is already concerned about the state of global trade will have a harder time figuring out what the end-game will be.
- Still, even if hope is no longer the buzzword in the Oval Office, it is important not to despair. While the best days of globalization may be behind us, there are some potential consolation prizes such as a RCEP deal to cushion Asia.

"The world under heaven, after a long period of division, tends to unite; After a long period of union, tends to divide. This has been so since antiquity."

- *Romance of the Three Kingdoms* -

"话说天下大势，分久必合，合久必分。" 《三国演义》

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That part of the cycle

When we think about how the present affects the future, it is sometimes useful to cast an eye on the past as a starting point. Admittedly, in drawing from the opening lines of an ancient Chinese text, which is based on the tumultuous period in early 3rd century AD when Han Dynasty's China splintered into a multitude of warring fiefdoms, we have stretched rather far backward in our time series.

Still, we thought that those words aptly capture the cyclical nature of life that is applicable not just to the hold of centralized power in an ancient kingdom but also the increasingly challenged notion of ever closer economic integration in today's world.

Indeed, the formal announcement by US President Trump that US has withdrawn from the TPP agreement, while long telegraphed, has nonetheless come as a sobering reminder that times have changed. On top of that, apart from pulling out from trade deals that are not fully in place yet, Trump looks set to also renegotiate existing agreements that have been long been operational, starting from NAFTA that has been effective since 1994.

Given the sense that isolationist populism is on the rise elsewhere, especially in Europe, as well, it does look like we may be nearing that particular point in the arc of globalization history whereby "after a long period of union", it now "tends to divide."

That is most unfortunate, especially if we consider that global trade flows have been in the doldrums in the past few years and would need all the political backing it can have for a boost, rather than a protectionist cap that could make things worse.

For the period 2012 to 2016, global traded goods grew by an average of 1.8% per year in volume terms. That is markedly lower compared to the pre-Global Financial Crisis period of 2003-2007, when trade flows grew by a whopping 7.4% per year.

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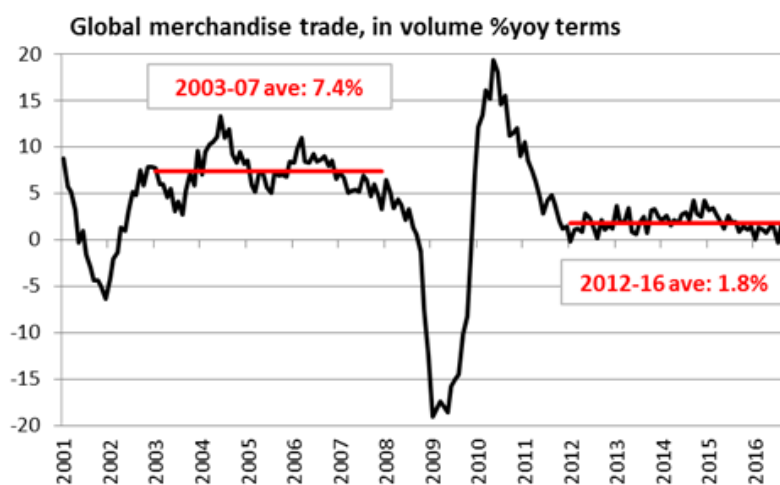
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In its October 2016 assessment, the International Monetary Fund worked out that the majority of the trade slowdown can be attributed to a weaker global demand, courtesy of more lacklustre growth in the world economy, as well as a shift in China's economic model.



Source: Bloomberg, OCBC.

One conclusion from that particular report is that, “With other factors, notably weak investment, already weighing on trade, resisting all forms of protectionism and reviving the process of trade liberalization to dismantle remaining trade barriers would provide much-needed support for trade growth.”¹

Not all is lost

While the economically sound advice is unlikely to find a receptive audience in today's White House and in the headquarters of various populist parties plotting their way into power in Europe's rounds of elections this year, it is heartening to see that at least some leaders appear to be still open to the idea.

Indeed, take the on-the-deathbed TPP, for example. A day after Trump's formal withdrawal, there are reportedly rearguard efforts led by Australian PM Malcolm Turnbull to corral the remaining 11 economies to salvage whatever is left and potentially still have a trade agreement without the US. While any potential Mini TPP would still be imbued by America's conspicuous absence, it should nonetheless be a celebrated victory for globalization.

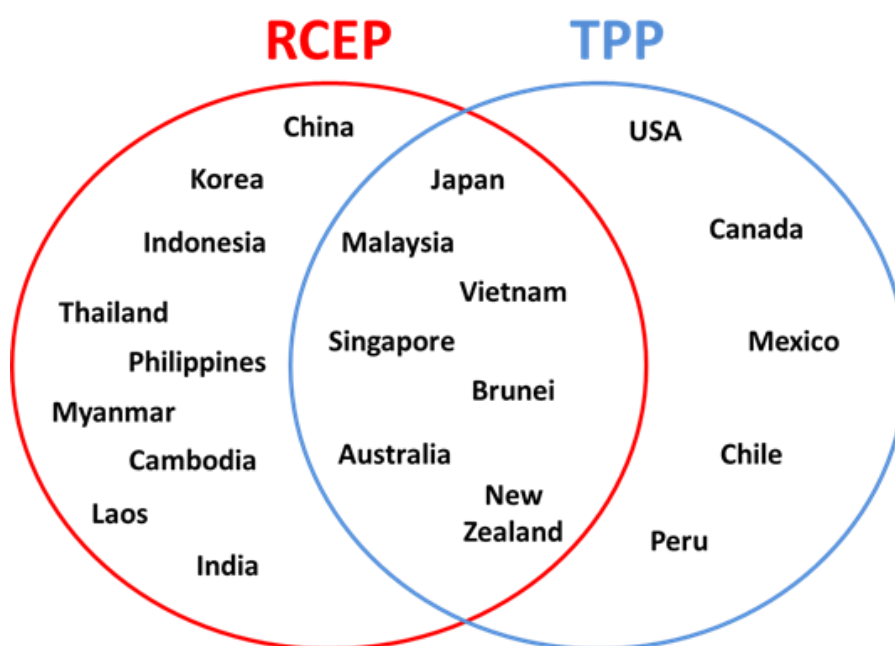
This is all the more so if the remaining countries manage to retain the more progressive elements of the original agreement. After all, TPP was not only about bringing about tariff reductions for goods. At its origination, it also aspired for easier flows in services sector, to uphold common standards in intellectual property protection, labor and environment safeguards, as well as to provide a more level playing field for private companies vis-à-vis state owned enterprises.

The other soup

Apart from the potential resuscitation of TPP sans USA, there is also another alphabet soup that is brewing in RCEP (Regional Comprehensive Economic Partnership).

Comprising a total of 16 countries based around ASEAN and including China and India, there are talks about how RCEP can be an even more far-reaching trade agreement because it covers nearly half of the world's total population.

¹ “Global Trade: What's Behind the Slowdown?”, World Economic Outlook, October 2016, International Monetary Fund.



Source: OCBC.

That overt celebratory tone will likely to have to be moderated, however, given that RCEP – as helpful as it is – is more likely to start out being a lot less ambitious than the original TPP.

For one, the reality is that seeing just how strong the potential backlash against free trade can be, politicians are unlikely to go all out and gun for a far-reaching type of trade agreement on a scale similar to the original TPP.

Negotiations for RCEP are likely to be placing more emphasis on a gradual reduction of tariffs in goods, with gratuitous exemptions for specific sectors, while leaving services sector untouched at least at the start. Given the mix of key negotiating partners, we are unlikely to see any spirited discussion on making sure that SOEs do not enjoy preferential treatment in domestic markets, as well, potentially. In short, RCEP is most likely going to be less aggressive in terms of the breadth and depth of trade liberalization compared to the TPP.

Still, as we mentioned earlier, we live in an era where there is a tremendous centrifugal force gathering, to pull the global economy away from closer economic integration. Hence, any form of cooperation that Asian countries can muster to show that all is not lost would be welcomed by businesses and investors alike. Indeed, one hope is that the very specter that globalization may be lost might well turn out to be a galvanizing force to save it.

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