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Q&A-Global trade deals to struggle without U.S. market access; trade deals unlikely to be Biden's initial focus: Ho-Fung Hung, Johns Hopkins



Global trade pacts without the United States will face issues as predominantly exporting nations struggle to find consumers for their products, **Ho-Fung Hung, Professor of political economy at Johns Hopkins School of Advanced International Studies** told the Reuters Global Markets Forum on Tuesday, February 2.

"[The U.S.] has been running a chronic trade deficit with the world and acting as the consumer of last resort in the world economy," he said. "Any major trade deal without U.S. participation will have challenges of finding consumers of each other's products."

He added that the U.S.' return to a focused trade agenda would overshadow agreements such as the Regional Comprehensive Economic Partnership (RCEP), but such a move is unlikely as President Joe Biden adopts a "worker-centred trade policy."

Following are edited excerpts from the conversation:

Q: Were trade and economic tensions between the U.S. and China inevitable? If so, where do they go from here with underlying issues of tech, security, and trade still very much in the picture?

A: To answer this question, we need to revisit how the trade tension and security concerns started. They actually predated Trump.

In 2011 [during] Hu Jintao's visit to the US, Obama already mentioned the issue of intellectual property theft and unfair regulatory enforcement targeting U.S. companies in China. And the concern of Chinese high-tech companies on security grounds like in the case of Huawei also started around that time. These tensions increased and deterioration of relation accelerated in Trump's administration, partly because of Trump's approach and partly because of the Made in China 2025 initiative and the Belt and Road initiative (BRI) that made policy makers in the U.S. more concerned.

These issues are going to stay so the foundation of the tension is still there. It is why [the] Biden administration people keep emphasizing they are dealing with China as how the world is rather than how the world was. They realize there are some fundamental change in the relation between the two countries.

Q: What concrete changes would you expect in their relations under the new Biden administration?

A: The difference between the Obama administration and Trump administration lies in their approach to the same challenges. I expect the Biden administration will go back to some of the approaches tried by the Obama administration but put aside by Trump. For example: a lot of US companies are complaining about unfair competition in Chinese market and elsewhere with Chinese state-owned enterprises, forced technology transfer, etc. -- these complaints are documented in the American Chamber of Commerce in China members surveys over the years.

Back in the Obama years, Washington accelerated the negotiation for the Trans-Pacific Partnership (TPP) trade agreement with Asian countries excluding China, hoping to set up rule that China has to abide by if China wants to join. A lot is about state-owned enterprises and technology transfer. The idea is, if China wants to join that free trade bloc, it has to reform and address the many complaints by US companies. But Trump withdrew from the TPP.

Q: Does the signing of trade agreements such as the RCEP, the Comprehensive Agreement on Investment (CAI) with Europe, etc. put more pressure on the Biden administration to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)?

A: There is some chatter about reviving U.S. participation in the TPP -- now the CPTPP. Japan expressed its hope that US would come back under Biden. UK just applied to join the CPTPP. But the political climate in the U.S. is that, getting Congress to approve for TPP as it is will be challenging. So the Biden people recently have been talking about a "worker-centred trade policy."

I see it as an attempt to restart the trade agenda which is easier to sell to the Congress, which has been hostile to free trade agreements after Trump and with the growing left wing of the Democratic Party.

The United States-Mexico-Canada Agreement on trade (USMCA) in place of the North American Free Trade Agreement (NAFTA) that got bipartisan support in Congress is an example [what] this worker-centred trade policy will be like: A trade deal with clauses about labor standard to make sure products are not made by low-wage and unprotected labor. It is possible that Biden administration will try to do similar thing to get the U.S. back to the TPP. Biden administration's trade representative Katherine Tai has been a key force behind the making of USMCA.

Q: What impact does the pandemic have on the progression of China's Belt and Road projects?

A: With regard to the pandemic, first China has the personal protective equipment diplomacy along Belt and Road countries and beyond, exporting medical supplies to other countries. The next stage will be a vaccine diplomacy.

With rising vaccine nationalism and the lack of access to vaccines among many developing countries, China theoretically has an edge to win support in many developing countries by selling Chinese vaccines to them. But the challenge is that now there is a lack of trial data and trust in the Chinese vaccines. Brazil's trial data on Chinese vaccine is not great. So there is a confidence deficit that China needs to overcome. If China can pull that off, it will surely advance its influence in Belt and Road countries. But it is uncertain whether it works now.

Q: How do you see the dynamics of global trade changing with the RCEP and BRI in Asia, and all the bilateral agreements that have come into effect post-Trump's presidency?

A: The RCEP is more or less an umbrella regional trade agreement that covers what has been covered in many existing bilateral trade deal in the region. Theoretically it can be the basis for future expansion, but the fundamental problem of this RCEP, and also the China-Europe CAI, is that most if not all of the participating countries in Asia and Europe are export-oriented economies running large trade surplus.

The U.S., because of the special status of the U.S. dollar in the world economy, has been running a chronic trade deficit with the world and acting as the consumer of last resort in the world economy. Any major trade deal without US participation will have challenges of finding consumers of each other's products. A trade pact among major net exporters will not work as well as a trade pact with the U.S.

If the U.S. gets back onto its trade agenda, reviving negotiation of trade agreements with Asia and Europe, the CAI and RCEP will be overshadowed. It is what many exporting countries would hope for. But it is determined by the domestic political climate in the U.S. and whether a trade pact is still marketable to voters. But the success of the USMCA offers some ground for optimism

Q: What are the major differences between the RCEP and CPTPP? And do you see the two potentially merging into a bigger umbrella trade agreement?

A: The RCEP is quite minimal and has only weak coverage on important issues, like e-commerce, and discipline of state-owned enterprises as monopolies. The CPTPP, which was set up after the U.S. left the TPP, has clauses dealing with the question of state-owned enterprises. If the U.S. rejoins, it will surely deal with intellectual property right issues too. But again, it depends on whether the Biden administration manages to get the U.S. back into that.

Q: Any closing thoughts for us?

A: I think in the early days of the Biden administration, the focus will be on dealing with the pandemic and reviving the economy. They won't choose to take initiative to do any dramatic things with regard to China and trade yet, but they will be more responsive or reactive depending on what moves China will take with regards to U.S.- China relations.

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