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## Q&A-Biden to reengage on trade with the world, but not in rush to sign new deals or cut China tariffs: Chris Rogers, Panjiva, S&P Global Market Intelligence



U.S. President Joe Biden is committed to reengaging on trade on a multilateral basis, but is not in a rush to sign new trade deals or cut tariffs on China, **Chris Rogers, research analyst at S&P Global Market Intelligence unit Panjiva**, told the Reuters Global Markets Forum on Wednesday, February 3.

"There may be an early move to state an intent to join CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) in order to deter its members from working with China," Rogers said.

"Biden will probably walk, not run," he said, adding "policy changes will be more considered... and consulted upon, going forward."

The Regional Cooperation Economic Partnership (RCEP) will make it easier for Chinese companies to run regional supply chains, while providing a regulatory underpin the Belt and Road Initiative (BRI), Rogers said.

ASEAN countries in turn wanted better access to China, South Korea and Japan, and "the politics and economics are well balanced," he added.

Following are edited excerpts from the conversation:

**Q: How do you see the dynamics of global trade changing with the RCEP, BRI, and other bilateral agreements that have come into effect during Donald Trump's presidency?**

A: RCEP: This is a really important deal for the flow of goods across Asia by cutting tariffs and removing barriers. As an ASEAN-China project, it should make it easier for companies to run their regional supply chains more efficiently.

BRI: This is a long-running affair. If anything, we're seeing more backlash against some of the debt issues, but the infrastructure is paying off. For example, the rail links from China to Europe have been heavily used during the period of logistics congestion we've seen late last year and into this year, and well into Q2 according to a couple of the freight forwarders.

The other big trade agreement has been the EU-U.K. Trade & Cooperation Agreement -- TCA, aka the post-Brexit trade deal. We're still observing the fallout from that, but the initial read isn't great, particularly for just-in-time supply chains. Additionally, we won't see the full impact for industrial supply chains, especially autos, until the new rules-of-origin kick in next year.

**Q: Does the signing of trade agreements such as the RCEP in Asia, China's Comprehensive Agreement on Investment (CAI) with Europe, etc. put more pressure on President Joe Biden's administration to join the CPTPP? If so, what in the existing agreement would Biden want to renegotiate?**

A: Biden's certainly committed to reengaging on a multilateral basis, but is not in a rush to sign new trade deals - or indeed cut tariffs on China, etc. There may be an early move to state an intent to join CPTPP in order to deter its members from working with China. I'd also note that China's stated intent might not be serious. CPTPP includes a lot of areas of trade - e.g. trade, regulation and labour - that go beyond RCEP that China may not want to get involved with. So, a little pressure, but not enough to force an early move.

In terms of areas to renegotiate: 1. Labour - CPTPP and NAFTA (North American Free Trade Agreement) were close, but USMCA (United States-Mexico-Canada Agreement) as passed had much stronger labour rules -- e.g. minimum wage requirements for some imports from Mexico. Biden's made it clear that "labour is at the table" when it comes to signing trade deals.

2. Environment - Biden has also stated environmental, and specifically greenhouse gases, need to be a factor. There's some discussion about including the terms of the Paris Agreement in USMCA, though that may be more about stopping a future president from withdrawing again #trump2024. Most countries are supporting the Paris Agreement and are setting long term "commitments" to decarbonize, but may not want hard and fast rules in a trade deal.

There's more than enough there to: a) require years of negotiation, and b) act as a tripwire for completing talks.

**Q: What does China gain from the RCEP economically? Both the Peterson Institute and the Uni of Queensland-MOF suggest a modest 0.4% and 0.08% gain to real income by 2030 respectively. So, is RCEP more political than economic?**

A: I think the first point is that the range of estimates of the impact is telling -- trade deals like RCEP only cover a small part of the economy - goods. Additionally, goods tariffs around the world are much lower than they used to be and many of the RCEP members already had bilateral deals. The benefit for Chinese corporations is that it makes it easier for them to run regional supply chains. It can also be thought of as the regulatory underpinning for parts of BRI. Worth noting also though that RCEP has been driven by the ASEAN group who wanted better access to China, South Korea and Japan. I'd say the politics and economics are well balanced.

**Q: Where would you place India's position on not joining the RCEP?**

A: We just published yesterday on India's new budget. Full of tariffs that will help manufacturers -- reduced duties for steel importers-- and hinder them in specific sectors -- particularly importers of automotive electrical products. Such an industrial policy isn't consistent with RCEP membership. I can't see the (Prime Minister Narendra) Modi's administration wanting to give up flexibility on tariffs. "Make in India" is partly credited for the arrival of Apple manufacturing, via its supplier Wistron, in India -- though that's not gone smoothly.

**Q: What geopolitical consequences of RCEP do you see, especially from the point of view of China and the U.S.?**

A: I don't know if the aphorism that "countries that trade together don't go to war" still holds, particularly as China takes a more assertive role in the region, but it is certainly a deterrent. I don't think RCEP is that meaningful for the U.S. in the region vis-a-vis China. China, but not the U.S. in CPTPP, would be a bigger issue from a leadership perspective. I'd expect most of the China-U.S. issues to be resolved either bilaterally, through the WTO (World Trade Organisation) -- if that ever gets fixed -- or via other multilateral routes, particularly with the EU, where bridges need rebuilding, and with Asian allies.

**Q: Do you expect a huge increase in infrastructure development by way of foreign and local investments across member countries? Also, which countries would get maximum interest or investments in physical infrastructure?**

A: The short answer is no. The longer answer is that we will likely see increased corporate investment in supply chains, e.g., new factories for export, some physical infrastructure to support expanded trade including warehouses and port facilities.

I'd say one of the countries with the most opportunity for development in terms of international trade is Indonesia. The recent port investment by South Korea's Busan is a good example. Indonesia is one of the least exposed countries to intra-RCEP exports, which accounted for just 9.3% of GDP in 2019. The opportunities for Indonesia will take time to develop as tariffs are only being phased out between one and 20 years in some instances, while government support to build competitive advantage in some industries may be needed. Indonesia's exports of apparel accounted for 13.9% of shipments to the world ex-RCEP, but only 3.1% of exports to the RCEP bloc. Indonesia's exports of apparel to the RCEP group dropped by 21.9% year over year in the three months to July 31.

**Q: Do you see trade tensions between the U.S. and China abating from here? If so, how that impact moves that have already happened in terms of supply chain shifts and the RCEP deal?**

A: No. They will become "worse" if anything. By that I mean more widespread in terms of sectors/activity, while at the same time becoming more institutionalized and all-of-government rather than rule-by-tweet.

Companies that have started to shift their supply chains in response to tariffs probably won't reverse those decisions. The section 301 tariffs will probably stay on the books for now, unless there is some surprising thawing of relations and Biden wants to throw an incentive into the pot. We'll see the rivalry played out in other arenas too. RCEP/CPTPP as we've already discussed probably aren't significant in that regard. Myanmar and China-Australia may be interesting test cases.

**Q: Is there a clear path ahead for the U.S. to end protectionism and tariffs, and come back to global economic integration?**

A: There's a difference between there being a path and there being a willingness to take the path <insert ancient proverb here>. Let's take a look at the protectionism currently in place:

Section 301 tariffs on China: Not going anywhere short term (see above).

Section 232 tariffs on steel/aluminium: Might be selectively withdrawn for certain ally states -- remember S232 is all about national security. Removal is easy, but Biden just yesterday cancelled Trump's leniency on aluminium from the UAE citing continued weakness in U.S. aluminium capacity utilization.

Section 201 duties on solar panels: These might be removed in the name of facilitating Biden's green energy push.

Trade deals: I think big trade deals are unlikely to be signed in the short-term given the different priorities of Biden vs. Trump, sorry Boris Johnson, but the direction of travel will be to "remove trade irritants" steadily over time.

An important side issue is the WTO. Its function as the world's trade rule police officer is currently broken. Biden could act swiftly to fix that, though a more considered approach to reforming the WTO is probably needed.

So, the path is there. A degree of willingness is there. But Biden will probably walk, not run.

**Q: How do you see the U.S. increasing its influence in the Asia-Pacific region, especially to counter RCEP and China's ever-growing influence (that you briefly discussed earlier)?**

A: On economics "countering" RCEP could occur via CPTPP -- but don't expect a rush -- and removing existing trade barriers, like the tariffs we mentioned. Reformation of the WTO is another target, as is reengaging in terms of the Paris accords and other multilateral issues such as digital services taxes and carbon border taxes. Again, we need to be thinking in a normal trade policy time frame of quarters and years, not minutes and days. #maketradeboringagain

On politics we may see action sooner particularly, as mentioned above, with regards to breaking events like Myanmar, Australia-China, Taiwan, etc.

**Q: Any parting thoughts for us?**

A: The good news for decision makers -- both financial and industrial -- is that policy changes will be more considered and flagged / consulted upon going forward. That doesn't mean that there won't be momentous changes and significant new opportunities emerging.

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