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Rising Protectionism, East Asian Trade, and the Future of Asian Integration

An LKI Roundtable with Dr. Shiro Armstrong
Fellow, Crawford School of Public Policy, Australian National University

Reported by Pabasara Kannangara *

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Three key takeaways from the round table discussion with Dr. Shiro Armstrong -

- 1. Protectionist sentiments have arisen due to political changes in the US and Europe.**
 - 2. East Asian integration has been based on a non-binding, open regionalisation framework, where the World Trade Organization (WTO) played a major role.**
 - 3. The Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP) should serve as a guide for future trade agreements, to promote open accession and maintain value chains in Asia.**
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Introduction

- Dr. Shiro Armstrong, a Fellow at the [Crawford School of Public Policy, Australian National University](#), addressed a Foreign Policy Round Table at LKI on “Rising Protectionism, East Asian Trade and the Future of Asian Integration” on 19 September 2017.
- The round table was held in partnership with the Australian High Commission in Sri Lanka. It was attended by the Deputy High Commissioner and Second Secretary from the Australian High Commission, the Deputy Chief of Mission of Japan, representatives from other diplomatic missions, LKI’s Board of Management, the Department of Commerce, the University of Colombo, and representatives of think tanks and the media.
- The roundtable was moderated by Dr. Ganeshan Wignaraja, Chair of the Global Economy Programme at LKI.

Takeaways from Dr. Shiro Armstrong’s Presentation:

East Asian Economic Integration

- Despite a lack of political affinity among many East Asian countries, East Asia is one of the most economically integrated regions in the world.
- In East Asia, the economics dominates the politics; economic relationships often shape and constrain politics in the region. The global trading framework is, to some extent, responsible for improving political relations between Japan and China.
- The cooperation, and the economic integration that exists, is on a voluntary basis; this has led to East Asia practising open regionalism. The cooperation within the region does not come at the expense of non-members outside of the region.
- Integration in the region has developed without a legally binding framework. Hence, the growth in East Asian integration has been largely influenced by the WTO.

Current Challenges

- Ten years since the global financial crisis, economic recovery in many advanced economies has been slow and uneven.
- There has been a rise in protectionist sentiments as a backlash against globalisation (as evidenced in votes against political and economic integration, and the rise of violent nationalist movements), and uncertainty about the economic prospects.
- This is not only limited to the US. Protectionist sentiment has proliferated in many countries around the world, Brexit in the UK being a prime example.

Threat of Protectionism to the Global Trading System

- The US pulling out of the TPP, along with other protectionist measures can be explained by the deep structural issues that exist in that country.
- One such reason is the slow economic growth in the US that has exacerbated some of the deindustrialisation in the Rust Belt and the lack of social protection. This has led to a strong backlash against globalisation and openness.

What Asia's Response Should Be?

- With this threat in the US, it is important to find ways to reinforce the international trading system and tenaciously defend this rules-based order where possible.
- As a founding member of the General Agreement on Tariffs and Trade (GATT) and the WTO, the US has promoted international trade since the end of the Second World War. Now, the biggest threat to the system is the US.
- China is not ready for a leadership role, and the world is not ready for Chinese leadership. It has to be a collective response by all Asian countries to take on a leadership role and co-operate with one another.
- Collective and political leadership is required to make progress on the prevailing trade border issues, investment services, and cross border e-commerce.

TPP and RCEP

- With the US withdrawing from the TPP, other TPP members have resumed talks. But, it is rather difficult to imagine whether there would be enough political clout among remaining members to realise the TPP.
- Countries should adopt certain parts of the TPP and implement them unilaterally. The TPP should be used as means of lifting the standards of other agreements.
- RCEP is a natural platform for projecting Asian interests in the global system.
- An ambitious agreement should be drafted with US interests in mind.

Lessons from US and Europe on Trade

- The importance of social protection should be highlighted. Public services such as education and healthcare need to be strengthened. Countries that possess strong social protection systems have not had a strong retaliation against globalisation.
- Adjustment packages to countries that are displaced from openness and competition from new technology should be introduced. These include an institutional and governance framework and labour market policies that facilitate labour mobility.
- Spreading the benefits from trade and technology from one growing sector to the rest of the economy and a good macroeconomic framework can ease external shocks.
- Regional cooperation should not excessively impinge on sovereignty, and should respect political, ideological, and cultural differences within countries.

Key Points from the Round Table Discussion:

Implementing parts of TPP into RCEP

- States should avoid excessively strong intellectual property rights and investor-state dispute settlements in RCEP.

- It is important to take strongly vested interest into account. The US hegemony can bring more to the bargaining table than the other member countries.

East Asian Integration despite Political Tensions

- The commitment of countries in East Asia to open up their economies has contributed significantly to East Asian integration.
- Regional politics poses as an obstacle to creating a legally binding framework, hence economic openness, which was facilitated by the WTO, grew in popularity.
- Close proximity of regional trading partners leads to a rapid growth and interdependence.

Balancing Social Safety Nets and Trade in a Developing Economy

- Full employment, flexible exchange rates, and a good macroeconomic framework would enable states to absorb and respond to economic shocks more rapidly.
- Sri Lanka has a good healthcare and education system; however, these are necessary, not sufficient conditions for trade-led development.

Suggested Readings:

Beeson, M. (2014). *Regionalism and Globalization in East Asia: Politics, Security and Economic Development*. Palgrave Macmillan

Filippini, C. and Molini, V. (2003). The Determinants of East Asian Trade Flows: A Gravity Equation Approach. *Journal of Asian Economics*. 14(5): 695-711. [online] Available at: https://www.researchgate.net/publication/4878430_The_Determinants_of_East_Asian_Trade_Flows_A_Gravity_Equation_Approach [Accessed 23 September 2017].

Fukunaga, Y. (2014). ASEAN's Leadership in the Regional Comprehensive Economic Partnership. *Asia and the Pacific Policy Studies*. 2(1):103-115 [online] Available at: <http://onlinelibrary.wiley.com/doi/10.1002/app5.59/pdf> [Accessed 23 September 2017].

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Wignaraja, G. (2017). *Sri Lanka's absence from Asia's Big FTA Game*. The Lakshman Kadirgamar Institute. [online] Available at: <http://www.lki.lk/publication/sri-lankas-absence-asias-big-fta-game/> [Accessed 23 September 2017].

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