

Trump-proofing the East Asia Economy Through Elusion

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East Asia could stand to gain in the short term from protectionist measures that US President-elect Trump is anticipated to level against China and Mexico. But long-term benefits will only come to East Asian economies if they proactively assert themselves as an independent force rather than instruments in the US-China battle for economic supremacy. Stronger cooperation between East Asian economies can champion the agency of third nations and strengthen open markets on the global stage.

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US President-elect Trump will put tariffs up across the board, even if only initially as a negotiating tactic. He will increase bilateral tariffs on China and Mexico. The [US Congress is likely to withdraw 'Permanent Normal Trading Relations'](#) — that is, Most Favoured Nation treatment — from China, which would be even more aggressive, with even worse consequences.

All else being equal, Trump's tariff increases could yield an economic gain for East Asia in the short term. US exports are likely to become increasingly uncompetitive, while offshoring would continue to flow into the region from China, Europe and the United States — especially if US-Mexico tensions escalate.

But the longer-term damage his policy tactics will do in undermining the open world economy — and the likely political pressures from both China and the United States to choose sides — will quickly overwhelm any benefits. This will increase uncertainty for businesses and governments in the region and right around the world.

East Asia needs to band together and resist the temptation to play the game that [Trump instigates with Xi](#). The region has advantages in creating its own open markets tied to the rest of the world, both inherently and as an attractive alternative to China and the United States, that it would be well-advised to pursue.

This strategy would emphasise institutional processes and openness, as opposed to doggedly pursuing outcomes in specific industries or trying to cut deals with one or the other of the big powers. In contrast to the self-sufficiency driving both Chinese and US industrial [policy](#), this approach would take the agency and markets of third nations seriously, in the region's enlightened self-interest.

There are both low-hanging fruits and perennial crops to be harvested from East Asia

differentiating its approach from that of the two big powers. In the short term, allowing foreign direct investment in from all comers (with extremely narrow national security restrictions) and encouraging cross-border investment in developing economies would rapidly grant a competitive advantage over rivals who restrict technology transfer. East Asia's supply chains would stand out for their efficiency and resilience.

If the region foregoes the race to high tariffs or rapidly negotiates them into cross-border investment and integration of production, it would increase the purchasing power of both its households and businesses, while the United States and China would lose price competitiveness in the industries they wish to dominate.

Longer-term, the returns to East Asian economies are even larger from separate, more open strategies than those of the United States and China. Those two economies are already on the way to destroying their own competitiveness by reducing economies of scale; by limiting their competition around protected champions; by supporting 'critical industries' chosen by backward-looking bureaucrats blinded by national security concerns; and by hobbling their ability to invest in research and other public goods by massive escalation of subsidies to production.

An ASEAN coalition around or with the full membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that sustains a policy of strategic openness would exert a greater influence over the standards and networks that are essential to today's technology-based trade and consumption.

The vast majority of third nation governments would prefer to play a part in the standards they accept rather than being forced into one or another rival camp. More collaboratively developed standards and functionally interoperable networks can emerge by reaching out to Europe and India or working through plurilateral processes at the World Trade Organization.

Of course, there are other goals that matter for foreign and industrial policy beyond exports or manufacturing employment. On all these scores though, the alternative approach to that of China and the United States is clearly superior. More open sourcing of green tech components as well as final products would accelerate the green transition and make it far more accessible to the rest of the world.

The United States and China could end up repeating the self-defeating economic arms race of only paying attention to third nations when the other rival does. This neglect presents not only an opportunity for East Asian foreign policy, but a need for the region's governments to work with like-minded counterparts on supplying public goods, such as rapid transition to a carbon neutral economy, that are increasingly under-supplied.

Sometimes, one cannot beat another at their own game. A better strategy is to choose to do something different. East Asian economies cannot win, either in the narrow sense of achieving industrial parity or in the more meaningful sense of shaping the world's relationship with new technologies, by emulating current US and Chinese trade and industrial policies.

The region simply does not have the fiscal resources, military capacity or ability to make enemies that the United States and China have. Thankfully, there is an alternative strategy, as the bastions of open trade and investment strategies, that will benefit the East Asian region and the globe.

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