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Donald Trump and the Established Trade Order: Implications for South Asia

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What is the likely impact of the assault on the international trading system by the United States (US) President Donald Trump that has developed into a major confrontation between Washington and Beijing? In particular, how would this spat affect Asia and the Continent's less developed nations? Should these countries give up the hope that they too could follow the model of export-led growth adopted by what the World Bank, in its 1993 study, called "East Asia's miracle economies"?² This paper will attempt to answer these questions by using Pakistan as a case study. The main conclusion offered in this paper is that Trump's focus on bilateralism rather than multilateralism in the trade arena could be turned into an opportunity for the South Asian nations. They could restore trade relations among themselves that were disrupted by British India's 1947 partition and the creation of the independent states of India and Pakistan. It would also have an impact on the potentially multi-trillion dollar Belt and Road Initiative. Launched by China, it is aimed at connecting it and the Asian

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² The World Bank, *The East Asian Economic Miracle: Economic Growth and Public Policy*, Oxford University Press, 1993.

countries to its west by roads and railways to Europe and Africa. This would create a new geo-economic entity in which China would be the principal player. Such an entity could affectively challenge what has been the US-dominated international economic and trade system created in stages after the end of the Second World War. There is some irony in the fact that that the system is under assault by the US, its founder.

Introduction

This paper has four parts. The first describes the main features of the international system designed in the late 1940s by the countries that won the Second World War. The system developed over time until and had two basic components – political on the one hand, and financial, development and trade on the other. It was embraced by all world nations. The United States (US) was the main sponsor of the system. It developed over time. In 1995, the international community, led by Washington, established the World Trade Organization, (WTO), to watch over the development of the system. There is some irony in the fact that, having helped to establish the system and guide its development, it is being dismantled by the US president, Donald Trump.

The second part of the paper provides a brief summary of the actions taken by Trump in the US since he took office on January 2017. These have undermined the rule-based global economic system created in the post-Second World War era. With his focus on deal-making, the American president sees advantage for his country in working with other world nations in bilateral frameworks. He sees negotiations as zero-sum games in which what the winner gains; the loser loses. He does not have the patience to get involved in multilateralism. He finds that a cumbersome and untidy process.

The third part of this paper uses Pakistan as a case study to discuss how one Asian country could react to the challenges posed by the decisions taken by the US president. Pakistan is an interesting country to study. Among the other large nations of the South Asian sub-continent, it is the least integrated in the global economy. It is hoping to come out of isolation by using international commerce to link it to the world outside. However, rather than being hurt by the

setbacks in the international system, the country could take advantage of the changes implied by the moves by Trump. It could develop closer relations with other South Asian states.

The fourth and final part examines the possibility opened up by the US' moves for the long separated countries of South Asia to come together using regional trade to re-bind them. This could be done initially by removing the trade barriers that were put up for political reasons. The easier flow of goods, commodities and services could result in the creation of a more formal arrangement among these countries. The Chinese-sponsored Belt and Road Initiative (BRI) could become a catalyst to bring about greater South Asian integration. This paper ends with a brief concluding section.

The International Economic, Financial and Trade System

The South Asian nations had not benefited as much from globalisation as those in the continent's east. They were hoping to join those that have gained a great deal from the opening of the global economy. It is unfortunate that they will now be subjected to different sets of trade rules. For over 70 years, the world trading system had moved towards the rule of laws watched over by a set of institutions in which no single country could call the shots. Countries around the world had worked together to shape the system. The US had provided the lead in this endeavor.

The treaty that had led to the creation of the WTO in 1995 was effectively negotiated over a period of 50 years. The system, originally designed by the victors of the Second World War, had three components, each centered on a multilateral institution. The task of maintaining financial stability was assigned to the International Monetary Fund. Rebuilding the war-torn Europe was to be the job of the International Bank for Reconstruction and Development (IBRD). Once Europe had revived, the IBRD developed into what is now called the World Bank Group. Supplementing the World Bank Group is a number of regional banks, including the Asian Development Bank; the Inter-American Development Bank; the African Development Bank; and the Islamic Development Bank. The Chinese sponsored Asian Infrastructure Investment Bank can also be seen as a part of the international financial and development structure.

A world trade organisation was to be the third leg of the economic and financial system. However, it proved harder for world nations to agree on the scope and reach of a system to manage global commerce. As an interim measure, they settled on the General Agreement on Tariffs and Trade (GATT). Initially, only 23 nations joined this organisation in Geneva on 3 October 1947. The GATT became effective on 1 January 1948. Over time, many more nations became members. Its main purpose was to reduce and possibly eliminate trade barriers such as tariffs and quotas. The GATT succeeded in achieving most of this purpose by holding discussions among nations that were called 'rounds'. The last round, the Uruguay Round, was concluded at Marrakesh, Morocco, with the signing of a treaty that created the WTO. The new organisation was given the authority to regulate all aspects of international commerce, including the settlement of disputes among member nations. The GATT and its successor, the WTO, have successfully reduced average tariffs levels for the major participants from 22 per cent to only five per cent. If there was any deviation from the agreed framework, those hurt by the departure could appeal to the WTO to adjudicate. The WTO's decisions were final and had to be followed. The large Communist countries that had stayed out of the global system came into it by promising to reduce the role of the state in economic management. China joined the WTO in 2001, followed, a decade later, by Russia. However, neither country fulfilled its promise to the international community. The state remains active in economic matters.

The system brought much benefit to the world economy and trade played an important role. Between 1985 and 2005, the proportion of trade in global output increased from 15 per cent to 30 per cent. The ease with which goods and services could cross international borders resulted in major changes in the global manufacturing system. Most heavily traded products were manufactured from parts and components made in many countries. The US' automobile industry made cars and trucks using components made in Mexico and Canada. Apple that made iPhones and iPads, designed these products in California, exported the designs to a Taiwanese assembly plant located in China's south that used parts and components imported from several East Asian countries. Global supply chains linked production systems across the globe. China, in fact, has been called the great assembler, using parts and components made in a number of countries, mostly East Asian, to make the final products. Reducing the flow of these goods from China to the US would impact the exports of parts and components into China. This was the consequence of the globalisation with goods, services, capital and information flowing freely among nations.

This was the case in particular in the world's more developed parts. Capital could move fast among nations and multinational corporations could follow the linked political system as a result of the remarkable strides made by information and communication technologies. This was the theme of an important book, *The World is Flat*, by the American journalist Thomas Friedman.³ This process would have continued had the global economy not plunged into what came to be called the Great Recession of 2007-2009. The slowdown lasted for a couple of years and produced a number of long-enduring social and political consequences.

In the political arena, the Second World War victors agreed to establish the United Nations (UN) system with the aim of preserving peace among nations. The Security Council became an important component of the UN system of institutions. It was mandated to take action against those members who violated the peace pledge. For the UN to act, it had to win the approval of the 15-member Security Council in which five permanent members had to agree to any action. China, France, Russia, the United Kingdom and the US had the veto power.

The multilateral system would have survived had there not been a significant rearrangement in the distribution of global economic power. In the 1980s, China, having seen its national income increase 32-fold in a quarter century, became the world's second largest economy. It wanted a large role in the global economic system that the Western powers, in particular the US, were reluctant to grant. However, the real attack on the system came from the US that put Trump in the White House on 20 January 2017.

Trump's Moves in the International Trade Arena

What economists called the process of 'globalisation' brought major social and economic changes in the West. A significant number of people living and working in several old industries in the US and Europe lost their jobs and saw stagnation in their earnings. Their resentment brought new political forces into play. One of them was Trumpism in the US, the theme of several books that appeared in the first year of Trump's tenure as America's 45th

³ Thomas L. Friedman, *The World is Flat: A Brief History of the Twenty-first Century*, Farrar, Straus and Giroux, 2005.

president.⁴ There were also significant changes in the European political landscape. Britain decided to leave the European Union (EU) – a move that came to be known as Brexit – while a number of extreme rightist parties gained ground in continental Europe. The most significant change occurred in Italy when extremist political parties from the country’s political right gained the support of the majority of the electorate.

In the huge public rallies addressed by Trump in the run up to the elections of November 2016, he promised to move against globalisation and those who practiced it, the ‘globalists’. What came to be known as his base lived and worked in what was once America’s manufacturing heartland! Candidate Trump introduced a number of slogans into the country’s political vocabulary. These included “America First” and “Make America Great Again”. If he were elected, he promised his followers, he would dismantle the old global system and usher in a new political and economic order in which the US would rule supreme. There were three areas in which he would reverse course – trade, climate change and immigration. By diluting the old trading system, he would, he promised, bring back jobs to the US. By quitting the Paris accord on climate change and changing the regulatory system, he would revive coal mining. And by building a wall along the US-Mexico border, he would stop illegal migration into the country.

Trump made practically no progress on the issue of the wall along the Mexican border but he made a number of decisive moves in the areas of climate change. Not only did he take the US out of the Paris climate accord, he appointed Scott Pruitt, a global warming skeptic to head the Environment Protection Agency (EPA). Pruitt quickly began to reduce the reach of the EPA as well as move away from the many regulatory measures adopted by the administration of former President Barack Obama. However, it was in the area of international commerce that Trump made the most change. In words and on Twitter, the new president continued to espouse the anti-free trade rhetoric of his campaign. However, in the first year of his tenure, he pulled back before making major moves.

⁴ See for instance, Michael Wolff, *Fire and Fury: Inside the Trump White House*, Macmillan, 2017; David Frum, *Trumpocracy: The Corruption of the American Republic*, Harper, 2018; David Cay Johnson, *It’s Even Worse Than You Think: What the Trump Administration is Doing to America*, Simon and Schuster, 2018; Yascha Mounk, *The People vs. Democracy: Why Our Freedom is in Danger and How to save it*, Harvard University Press, 2018.

During the campaign, Trump picked on China as the country that had done most damage to the US by adopting unfair trade practices. However, once in office, he stopped short of labeling China a “currency manipulator”. Had he done that, it would set the stage for a number of punitive measures against Beijing. While he pulled America out of the Trans-Pacific Partnership trade agreement negotiated by Obama, he did not opt out of the North America Free Trade Area, after a last-minute push from lawmakers and Cabinet officials persuaded him not to pull out of the pact.

However, as Trump began his second year in office, both the tone and content of his trade policy changed dramatically. The first concrete result of the new approach was made public on 27 March 2018, when the US and South Korea signed a new trade pact in which Seoul agreed to a number of long-sought changes concerning its trade with America. A number of these related to the industries that had suffered declines in the US. Among them were the automobile and steel industries in which South Korea had emerged as a major competitor. The deal lifted existing limits on manufacturers like Ford and General Motors while extending tariffs for South Korean truck exports. It also restricted the amount of steel that South Korea could export to the US.

It was quite obvious that Trump’s decision announced a week earlier to impose stiff tariffs on the import of steel and aluminum into the country had worked in favour of Seoul’s willingness to work with Washington and conclude a bilateral trade deal. However, according to *The New York Times*, “the political success of the trade agreement – and its ability to be replicated in other negotiations is not guaranteed. Many countries have reacted coolly to Washington’s pugilistic approach to trade, viewing the president’s preference to punch first and negotiate later as counter to global interests.”⁵ France’s President Emmanuel Macron is a good example of the reaction to the US’ trade move. “We talk about everything, in principle, with a friendly country that respects the rules of the WTO. We talk about nothing, in principle, when it is with gun to our head”, said Macron reacting to the US-South Korea accord.

The American president continued his attack on the established multilateral trading system with focus on China. This was something he had promised his base when he contested the

⁵ Michael D Shear and Alan Rappeport, “Trump scores trade deal with South Korea ahead of nuclear talks”, *The New York Times*, 28 March 2018.

election. Soon after concluding the trade agreement with South Korea, the Trump administration announced that it would impose punishing tariffs on US\$50 billion (S\$65.5 billion) worth of Chinese imports. According to Robert Lighthizer, the administration was using an algorithm that would “maximize the impact on China and minimize the impact on US consumers.” The result was a list of 1,300 items that included industrial robots, chemicals, medical devices, circuit breakers, consoles, touch screens, and heavy machinery used in everything from processing food to crushing rocks. However, there will be fairly serious consequences on the US economy, believed many experts. It would impact the pace of recovery certainly for the US and possibly also for the rest of the world. “This is a pretty tenuous recovery, and employment is still at much lower level than it was before the 2007-09 crisis”, said Mark Muro, an economist at the Brookings Institution. “This is not a super dynamic, healthy industry.” However, Trump was not moved by these arguments. As one newspaper analysis wrote, “the trade confrontation with China got underway in March representing a second-year shift in the president’s stewardship of the economy from a more traditional Republican Party line to the ‘America First’ populism Trump embraced as a candidate.”⁶

The US and China dug in for a protracted trade war when on 6 April 2018, the Chinese government reacted fiercely to the suggestion by Trump that the amount of Chinese exports that might be subjected to sharp tariffs increase could be as much as S\$150 billion (S\$196.5 billion). His remarks spurred fears of an open skirmish between the world’s two largest economies and immediately sent the Dow Jones industrial average plummeting 767 points. The Chinese commerce ministry released a terse statement, “On the issue of Sino-U.S. trade, the Chinese position has been made very clear. We do not want a fight, but we are not afraid to fight a trade war.”⁷

There was considerable support for the Chinese position in most world capitals. They preferred a multinational approach in confronting Beijing to give up on what were viewed as unfair economic practices. However, Trump had made clear that he did not believe in working through a multilateral approach. His adversarial tactics since moving into the White

⁶ Damian Paletta, Heather Long, and Emily Rauhala, “Prospect for a U.S.-China trade war surges”, *The Washington Post*, 7 April 2018, pp. A1 and A16.

⁷ Ibid.

House had confused world leaders and also sent a clear signal that the US' approach to China had changed markedly.

The American newspapers were full of stories estimating the consequences for the American consumers of the moves Trump had made with respect to China. In its Business Section, *The New York Times* examined the impact of the inclusion of medical devices into the list of items the Trump administration announced would be subject to tariff increases. "The proposed tariffs have unsettled the medical device and supply industries, given that a growing number of products, as well as their components, are now manufactured in China. In recent years, as trade groups have noted, Chinese manufacturing of medical equipment has undergone a major shift from throwaway items like surgical gloves to more complicated products like magnetic resonance imaging scanners." The newspaper headlined its story, "Need a hip? It may cost you more", looked in some detail at the hip and knee replacement surgeries. It estimated that a 25 per cent tariff on titanium hip and knee replacements imported from China could cost the medical device industry up to US\$1.5 billion (US\$1.97 billion) each year. "Some of the higher costs would undoubtedly result in increased prices for those devices, affecting baby boomers, who are now among the biggest recipients of hip and knee replacements."⁸

Is a trade war coming, asked Krugman, the Nobel Prize winning economist who contributes columns regularly to *The New York Times*. Nobody knows the answer, even Trump, perhaps especially Trump himself, he maintains. "For while trade is one of Trump's signature issues – animus toward dark-skinned people being the other – when it comes to making actual demands on other countries, the tweeter-in-chief and his aides either don't know what they want or they want things that our trading partners can't deliver. Not won't – can't." Krugman rightly worried about the direction in which Trump was headed. "And that's why things are so incoherent. One-day Trump talks tough on trade; then stocks fall, and his advisers scramble to say that that the trade war won't really happen; then he worries that he is looking weak, and tweets out more threats: and so on. Call it the art of the flail."⁹ There was no doubt that the world was heading towards extreme turmoil. How could the countries that are most

⁸ Sheila Kaplan and Katie Thomas, "Need a hip? It may cost you more", *The New York Times*, 7 April 2018, pp. B1 and B5.

⁹ Paul Krugman, "The Art of the Flail", *The New York Times*, 6 April 2018, p. A23.

likely to be affected defend themselves? The author will answer the question by using Pakistan as a case study.

Pakistan and the Transforming International Trade Order: A Case Study

A number of actions taken by Trump and his administration in the area of international trade will not directly affect Pakistan. However, they will significantly change the environment in which Islamabad will be operating and managing world trade. This is occurring at a time when Pakistan's policymakers have begun to recognise that they need to focus on increasing the quantum and quality of exports in order to increase foreign earnings. Pakistan now has a large trade imbalance which is being financed either by running down the depleted foreign reserves or by new borrowings from foreign sources. If the latter, the result is a sharp increase in the burden of debt.

Pakistan will also have to rethink the direction in which exports should be sent. Mostly because of inertia, the argument has not significantly altered the content of the export basket or the destinations of exports. Cotton, cotton products and rice have remained the most important exports while the markets to which they were sent remained in the US and Western Europe. Islamabad spent most of its diplomatic capital on improving markets access for its textile products in the US and the EU. Even before Trump shook the established international trade order, Pakistan needed to develop a more dynamic trade policy. With Trump's approach, this task has acquired greater urgency.

Trump's actions on international trade have already affected the global market as well as the financial markets. China is the target of much of what he is doing and is likely to do in the future. This has brought the world close to a world trade war. In one of his many pronouncements on international trade, Trump said that a trade war is a good thing and America will always win in such an encounter. Both assertions, of course, were incorrect. International trade is a difficult subject even for economists to master. Trump understands little of it. The launch of a trade war with China has sent the financial markets into wild spins in most developed parts of the world, especially in the US. The sharp increase in values that came to be called the "Trump bump" has been rechristened as the "Trump dump." However,

the author's subject today is the consequence for Pakistan of what Trump is doing to international trade.

Islamabad needed to rethink how it manages international trade. Up until now, very little effort was made to focus on exports as an engine of economic growth. Exports were a by-product of normal economic activity. Most of those who were involved in it used it to take care of the surpluses that became available once domestic demand was satisfied. Much of what the Pakistani economy produced was low value-added demanded by local consumers. Take the very well-endowed agricultural sector as an example. Pakistan could have used it to produce such high value-added products as fruits, vegetables and flowers. Instead, it focused on the production of grains for local consumption. The government used its procurement policy to encourage this to happen. Pakistan's geographic location is such that it could have become a large supplier of these high-value added crops to the Middle East with a large population of wealthy consumers.

Trump, by focusing on bilateralism rather than multilateralism as the way to manage his country's trade relations, has put countries such as Pakistan in an awkward place. In the past, Pakistan spent a great deal of diplomatic effort on gaining access for its textile products in the US market. This in itself was the wrong approach. Even in this area, Pakistan produced low value products such as towels and bed sheets. Producing garments would have been more profitable but that did not happen as Pakistan's trade diplomats did not work on creating a US market for these manufactured items. Now, with Pakistan-US relations having reached the lowest point ever, focusing on market access to that country would not work. It would only work if Islamabad was prepared to slavishly follow the US in its losing struggle in Afghanistan. This Pakistan is not likely to do.

The rapidly developing China-Pakistan relations offer a good opportunity for Islamabad to fundamentally alter its international trade stance. The still-not-fully-developed China-Pakistan Economic Corridor (CPEC) programme needs to have a large export-promoting content. The Chinese would welcome that. As the proportion of the Chinese population living in the country's extreme west increases significantly, its demand for the products of Pakistan's agriculture will greatly increase. Personal incomes are rising rapidly in China and this is increasing the demand for such high-value products as fruits, vegetables, nuts, meat

and milk. By focusing on increasing the supply of these items, Pakistan could transform its agriculture sector that has long remained committed to producing food grains and cotton.

This transformation could be particularly significant in the country's northern areas that border China. The intended CPEC programme of investment aimed at improving road and rail-connectivity between northern Pakistan and western China should help to transport these products to the neighboring country. By developing the sector of livestock to meet the Chinese demand for meat and milk products, Pakistan could help the poorer populations in these parts of the country. Women who are actively involved in the rearing of animals would benefit in particular. Since it would be cheaper to transport processed meat and milk products over this difficult terrain, these areas could also build an agro-industry base.

Adding China in a significant way as a destination for Pakistan's exports would be very helpful in meeting Islamabad's needs for external finance to promote economic and social development. While the CPEC programme would provide the framework to bring about this important change, it will require a significant change in the direction and scope of public policy. The author would suggest that the Planning Commission establishes a specific wing to guide this change. Such a wing should work closely with the Chinese authorities and some of the international development agencies that have included the CPEC in their work programme.

This country case study illustrates how Trump's moves towards initiating a global trade war would lead to significant changes in the way nations across the globe are likely to operate in the world economy. For several countries in China's neighborhood or near-neighborhood, there is likely to be a move towards Beijing. China, rather than being hurt by the Trump approach to international commerce, will strengthen its position in geo-economics.

Possible Response to Trumpism: Greater South Asian Integration

South Asia remains one of the least economically integrated regions in the world. The reason it is that way has to do with politics rather than economics. The partition of British India in 1947 created two nations that immediately became hostile neighbours. Since then, India and

Pakistan have fought four wars, three of them over the disputed territory of Kashmir and one over East Pakistan, now the independent state of Bangladesh. Two of the four wars resulted in boundary changes. In the other two, the status quo was essentially maintained.

The one in 1948-49 ended in splitting the princely state of Jammu and Kashmir in two parts, one controlled by India and the other by Pakistan. The war in 1965 was started by Pakistan by encouraging non-military personnel to infiltrate the Indian part of Kashmir in the belief that they could excite a rebellion by the restive Muslim population of the state. India responded by declaring war on Pakistan that lasted for 17 days before the international community intervened. The 1971 war was the consequence of the independence movement launched by the people of East Pakistan who were unhappy by the way they were treated by the ruling elite of the western part of the country. They rebelled and India intervened to help them to attain independence. The fourth war was a limited affair in which Pakistan once again sought to change the status quo by occupying the Kargil heights in the Indian part of Kashmir. This was in the late spring of 1999. The man behind this initiative was General Pervez Musharraf, the head of the Pakistani army. India threatened to launch an all-out war against Pakistan if the invading force did not vacate the areas it had occupied. That outcome was prevented by the intervention of US President Bill Clinton when Pakistan's Prime Minister Nawaz Sharif, in a meeting held in Washington on 4 July 1999, agreed to withdraw Pakistani forces and restore the status quo.

In a book which the author worked on for the Institute of South Asian Studies and published in 2011, he said the following, "In spite of the effort made over the last quarter century to bring about more meaningful integration of the South Asia region, not much has been achieved. Regional trade as a proportion of the total has increased, but compared with other world regions it remains almost insignificant."¹⁰ The author used a simple economic model to estimate the impact on the area's economies of freer trade among them. The assumption was that greater international trade would bring about a major expansion in the rate of economic growth. The model developed three scenarios.

According to the first, the South Asian region continued to manage international trade by focusing on gaining access to distant trading partners such as the US and Europe. This

¹⁰ Shahid Javed Burki, *South Asia in the New World Order*, Routledge, 2011.

scenario has the Indian rate of economic growth at seven per cent a year in an 18-year period between 2007 and 2025. Bangladesh will be the second most rapidly growing economy with the gross domestic product (GDP) increasing at the rate of six per cent a year with Pakistan following at 5.5 per cent a year increase in its GDP. However, as discussed in an earlier section of this paper, the US under Trump is turning inwards and becoming protectionist. While Washington is aiming its wrath at China, its markets are not likely to remain as open as was the case before.

The second scenario is based on the assumption that the South Asian countries take greater cognisance of the importance of international trade as a contributor to growth and also of the geo-economic change that is occurring. In this, the centre of the global economy is recognised to be moving from the Atlantic to the Pacific areas, with China becoming a central player. The South Asians begin to redirect their trade to East Asia, in particular towards China. This scenario has the Indian economy increasing at the rate of 7.7 per cent, Bangladesh at 6.2 per cent, and Pakistan at 6.5 per cent.

The third scenario is based on South Asia redeveloping strong intra-regional links. These existed before 1947 when what are now Bangladesh, India and Pakistan were parts of one economic system. From 1947 to 1949, for instance, three-fourths of Pakistan's exports went to India and the same proportion of its imports came from that country. However, that changed when, in 1949, New Delhi imposed a trade embargo on its neighbour. Now, trade with India accounts for only five per cent of Pakistan's total trade. Under this scenario, India still leads in the rate of growth with the GDP increasing at the rate of nine per cent, with Pakistan now with the second highest growth rate of eight per cent. Comparing the first and the third scenarios, the author found Pakistan the largest beneficiary of greater South Asian openness with its rate of growth increasing by 2.4 percentage points a year, while that of India increases by two percentage points and that of Bangladesh by 1.2 percentage points.¹¹

These scenarios were developed before China launched its BRI that has the country becoming a central player in the development of land-based international commerce. In its annual report, the Lahore-based Burki Institute of Public Policy has looked at the impact of the CPEC, a component of the BRI, on Pakistan and concluded that this will prove to be a

¹¹ *Ibid.*

game changer for Pakistan as well as for Central Asia.¹² If Afghanistan and India are added to these two initiatives, South Asia could benefit enormously, bringing the rate of economic change for the entire South Asian region closer to that attained by the East Asian miracle economies in the 1980s and 1990s. The South Asians would have found a way of escaping the adverse consequences of the Trumpian blow to the international trade system. However, for this to happen, both Islamabad and New Delhi will need to change the way they approach each other. Pakistan, for instance, will need to grant the most-favoured status to India as the Indians have done with respect to Pakistan. It will also need to give access to India for its trade with Afghanistan. This is a long-standing Indian and Afghan demand. Giving this access will make it possible to bring in Afghanistan and India into the CPEC. In return, India will need to re-tailor its non-tariff barrier regime in way that it does not discriminate against Pakistan.

Conclusion

In the short period that Trump has been in charge of the US, he has brought about a fundamental change in the shape of the international trade system. Urged on by what is called his political base, he has turned the US inward and protectionist. The base has blamed ‘globalisation’ for its economic difficulties and has identified what it calls ‘globalists’ for its economic woes. In response to its pressure, Trump is on the verge of initiating a major global trade war centered on punishing China for what he and the trade experts in his administration call Beijing’s unfair trade practices.

Tariffs are being used as the main instrument for punishment. The initial list of as many as 1,300 products China exports to the US has been identified for higher tariffs. Their total value is estimated at US\$50 billion (S\$65.5 billion). On 5 April 2018, Trump asked his administration to prepare another list that would bring the total of imports from China subject to increased tariffs to US\$150 billion (S\$196.5 billion). China has reciprocated by announcing a number of counter-measures, including increased tariffs of imports from the US.

¹² The Shahid Javed Burki Institute of Public Policy at Netsol, *The State of the Economy: China Pakistan Economic Corridor*, Lahore, 2018.

The world, in other words, has gone back to where it was several decades ago when trade could be used to influence bilateral relations among nations. That option was taken away by constructing a rule-based international trade system that had the provision to sort out disputes by reference to the adjudication system under the watch of the WTO. It is this system that Trump is busy dismantling. If Trump succeeds in his efforts, it would result in a significant change in the structure and pace of expansion of the global economy. The Asian continent would feel the greatest impact. Instead of being seriously hurt, China may come out of this scuffle stronger, with its influence increased in the world.¹³

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¹³ Donald Trump and Tony Schwartz, *Trump: The Art of the Deal*.