Free trade or protectionism? RCEP (Regional Comprehensive Economic Partnership) might be an indicator about the direction.

26.4.2021

For few years discussion in global trade has concentrated more on measures to increase protectionism. Few very visible politicians have promoted protectionism … e.g. president Donald Trump and prime minister Boris Johnson. Some way in news this has been the dominant message … and then on November, RCEP, the largest free trade area globally was opened up. RCEP stands for Regional Comprehensive Economic Partnership. It is a free trade agreement in Asia and Pacific areas.

What happened? Donald Trump's America was so convinced about its Make America Great Again-policy that USA totally ignored free trade development in it's own back yard, in the Pacific Ocean region. China took the leading role and pushed forward the creation of world's largest free trade area. USA became like an outsider with its protectionist trade policy in its own home turf. President Biden's administration has to work hard to maintain its position as an economically credible player in Pacific region. China has increased its role in global trade through connections to distant countries. China gradually has increased its role in Africa and now it can use Africa as a raw material source for its expanding economy. China became dominant trading partner with Africa in old English and French backyard.

It is clear that based on the experiences from last few years, through trade wars and hostile trading policies, positive steps forward in international trade won't be taken. If you want to influence international trading possibilities in a positive way, you need to negotiate with others to find common ground to proceed in practical questions of international trade.

Hopefully the policy on protecting domestic industries is coming gradually to an end. President Biden hopefully can see the other side of the coin. It remains to be seen but it is expected that the competition between Biden's USA and China will become tougher and tougher for global economic dominance. Most likely as part of this competition will be also technological competition … as a fact it has already started some time ago. If Biden's USA is going to be smarter than Trump's USA, they should look for close allies in this competition. This would open up possibilities for e.g. Japan and EU to form better trading connections to USA than during Trump's administration. Most likely this would mean the continuation of certain kind of economic cold war between USA and China. If Biden's USA is smart, they won't tackle China alone as Trump's administration did. USA has had after World War II very strong network of allies in Europe and Asia. It might be a clever move to tackle the China challenge with these same allies. Trump administration did hurt relationships especially with EU countries … like Germany and France, but nothing has happened yet which can't be changed.

This would most likely mean setting higher trade barriers between two coalitions: USA, Europe and Japan vs. China. Russia seems to be ending up to a more and more clear conflict with Europe and USA in areas of different policies. This would mean that in this conflict situation China could benefit from a potential partnership with Russia. Economically Russia does not play an important role in global economy, but in security policy and foreign policy areas China would benefit from a partnership with Russia. Russia is a military superpower and it will maintain this position also in the near future.

It seems on the other hand that in this situation Europe naturally develops closer relations with USA. We come back to more traditional world order which existed before Trump administration. What will be the difference in this sense? Economically USA and China will be the main rivals economically for the global dominance. And both of these superpowers will create around them blocks of countries who support them globally in their efforts.

Ville-Pekka Mäkeläinen
Principal lecturer
SeAMK