

US Tariff Policy and a Transformation of Global Trade Architecture

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Presentation Overview

- I. The Collapse of Trust
- II. The Systematic Destruction of Export-led Development & Multilateral Order
- III. Institutional Alternatives: The Scramble for New Architectures
- IV. The Determinant Factor
- V. Conclusion: The Choice to Define the Future

The Fundamental Question

- Trump's tariff regime = demolition of post-(Cold)war trade architecture
- **Question:** Will responses create **resilient** multilateral system?

Or will global commerce **fragment** into competing blocs?

- **Answer** depends on how nations choose to **respond**
- Particularly critical: Asia and Global South responses
- This moment will define trade governance for generations

I. The Collapse of Trust

WTO Faces Institutional Death, Not Reform

- ▶ US de facto withdrawal by blocking Appellate Body appointments
- ▶ Mar. 2025: Trump suspended US financial contributions
- ▶ Aug. 2025: Rubio-Trump deadline decision
 - US = largest WTO contributor (11% of \$232M budget)
 - Outstanding US dues: \$25.7M (December 2024)
- ❖ Aug. 7, 2025: **Jamieson Greer's** essay for NYT, "Why We Remade the Global Order"
 - "Trump Round," a project to re-industrialize US and rebuild its economic foundation
 - "Rather than the **drawn-out dispute settlement process** favored by the old guard of trade bureaucrats, the new U.S. approach is to closely monitor implementation of the deals and swiftly reimpose a higher tariff rate for noncompliance if needed."
 - "It took over 50 years from that first meeting at Bretton Woods until the creation of the WTO. It has been 30 years since. Fewer than 130 days from the beginning of the Trump Round, **the Turnberry system** is by no means complete, but its construction is well underway.

Trade War Simulations Reveal Harsh Realities

- ▶ Center for New American Security (CNAS) simulation findings:
- ▶ Even experienced trade negotiators prioritize US market access
- ▶ Classic 'prisoner's dilemma': countries sprint to negotiate first
- ▶ Despite recognizing US unreliability, allies still choose bilateral deals
- ▶ Multilateral coordination collapses under US pressure
- ▶ Reveals structural weakness of current system

II. The Systematic Destruction of Export-led Development & Multilateral Order

Decades of Export Manufacturing Success

- Primary pathway from poverty to prosperity (1980s-2020s)
- Proven model: Integrate → Build capacity → Accumulate capital → Move up value chain
- Success stories: South Korea textiles (1970s) → Vietnam electronics (2010s)
- Enabled developing countries to narrow wealth gap with the West
- Model now facing systematic collapse globally

The Triple Shock Destroying Development Pathways

1. US Tariff Weaponization:

- 2.5% (2024) → 28% (2025): Breaches of MFN and tariff-ceiling commitments
- 'Greatest restructuring since WWII' : Trade diversion: politically driven, less efficient sourcing

2. Chinese Overcapacity:

- 7.1% export growth despite global slowdown (2024)
- 'Export surge' overwhelming smaller economies

3. Supply Chain Reorganization:

- Friend-shoring and near-shoring prioritize politics
- Disadvantages traditional low-cost manufacturing centers (cost-competitive countries)

Premature Deindustrialization

- Manufacturing employment ↓ 15-20% since 2020 (developing countries)
- **'Premature deindustrialization' before middle-income status**
- UNCTAD: 95 of 195 countries are commodity-dependent
- 85% of commodity-dependent nations = developing economies
- **Return to 'commodity dependence trap':**
 - Low productivity, volatile earnings, limited tech spillovers
- ▶ From prosperity back to poverty: textile workers → rice farmers
 - Represents millions globally experiencing development reversal
 - Symbolizes systematic destruction of export-led growth model

Trump's Credibility Crisis: FTA Violations

- Trump violates rules he negotiated in first term
- Canada-Mexico/Korea, etc. tariffs despite signed **USMCA/KORUS 2.0, etc.**
- Foreign governments' legitimate concern:
'Will US promises today protect us tomorrow?'
- Agreements only reliable until next election cycle
- Foundation of modern trade crumbles
 - Mary Ng, Former Canadian Trade Minister: 'Trust, once broken, is hard to rebuild'

III. Institutional Alternatives: The Scramble for New Architectures

Three Strategies in Response to WTO Collapse

1. Bilateral Scramble:

- Individual deals to avoid US tariffs
- Creates WTO-violating discrimination

2. Regional Integration:

- EU: 'Redesign the WTO'
- Asian Regionalism: RCEP, ASEAN
- Discussions of 'MUTO' (without US)

3. Alternative Institutions:

- BRICS expansion

1. Nations' Bilateral Deals & Diversification Strategies

- Through bilateral agreements:
 - Preferential access to most of global economy
 - Coverage across most countries
- Mary Ng: 'Insurance policies against uncertain economy'
- Strategy: Reduce over-reliance on unreliable US partnership
- ❖ Dormant Japan-Korea FTA gains new relevance
 - Question: Will political will match economic logic?

2. Von der Leyen's Revolutionary Proposal

- ◆ EU's three-track WTO reform: : governance, non-market practices, open plurilaterals
- ◆ June 26, 2025: EU heads of state dinner
 - Von der Leyen proposes EU-CPTPP linkage
 - 'Beginning of **redesigning the WTO**'
- 'Show free trade with large numbers is possible'
- Immediate 'consternation' at WTO headquarters
- Frantic calls from Geneva seeking explanations

CPTPP: High-Standard Integration Without US

- Model for regional integration without US participation
- UK's successful accession proves geographic expansion potential
- Appeal:
 - High labor and environmental standards + market access
 - Predictable frameworks amid US uncertainty
- Pathways for developing countries without US complications

The Math: EU + CPTPP = Game Changer?

- EU already has agreements with 10 of 12 CPTPP members
- Combined framework = 39-country economic powerhouse
- Represents world's most developed economies (WTO-1?, MUTO?)
- Deliberately excludes 'overtly obstructionist countries':
 - United States, China, India
 - Indonesia, South Africa, Brazil
- Countries that have 'crippled the WTO'

Why Exclusion Works: Learning from Obstructionists

- China: State-backed manufacturers push out foreign companies
- United States: 'Outright hostility' toward WTO
- India: Blocks agreements, refuses environment discussions
- Traditional multilateralism sought universal participation
- New model: Exclude disruptive actors
- European officials acknowledge 'attraction' of this approach

RCEP: The Unexpected Winner?

- Primary institutional beneficiary of US disruption
- Countries prefer RCEP integration, even under intense US pressure
 - Represents 1/3 of global population and GDP
 - Provides predictable, rules-based access
 - Among world's most dynamic economies
- Timing proves providential for diversification needs
 - 'Trump's tariff tantrum will push ASEAN... to diversification'
 - Framework for manufacturing outside China + access to Chinese markets

ASEAN's Coordinated Response?

- Differential US tariff impacts
- Malaysia's 2025 chairmanship strategy:
 - 'Balance diplomacy, resilience, regional solidarity'
- Evolution: Individual negotiations → collective bargaining
- Leveraging combined economic weight vs. destructive competition for US access

China's Strategic Positioning in Asia

- China strengthened Asian position and deepened ASEAN integration
- Unilateral market opening + ACFTA acceleration
- China overtook US/EU as ASEAN's largest export market (2023)
- Provides opportunities (cheap inputs) and challenges
- Different from traditional development finance:
 - No structural adjustment conditions
 - Enables production capacity maintenance
 - Supports market access diversification away from US

3. BRICS: Alternative Global Architecture?

- Expansion: Egypt, Ethiopia, Iran, UAE, **Indonesia** joined the existing Five
 - 30+ additional countries expressing interest
 - 'Heir to the Non-Aligned Movement'
 - Offers 'third way' avoiding US-China choice (?)
 - New Development Bank (NDB): \$32B in approved projects since 2016
 - Different approach: Infrastructure + industrial capacity building
- ❖ US Pressure accelerates trade within BRICS?
- ❖ Like COMECON (Council for Mutual Economic Assistance)?

South-South Trade Networks Growing

- Developing countries intra-trade growth:
 - 25% (1995) → 45% (2024)
- Bypasses traditional North-South patterns
- Creates resilient networks less vulnerable to US volatile policy
- Success examples:
 - Brazil: Asia agricultural exports > North America
 - India: Global pharmaceutical production networks
 - Diversified destinations and supply sources
- Demonstrates practical alternatives to US-dominated trade

Digital Trade: New Standards in Regional Frameworks

- **Plurilateral digital agreements** advance rapidly despite multilateral stagnation
 - ❖ WTO 'Joint statement initiatives' (on e-commerce, investment facilitation, digital trade) create new international standards
 - ❖ EU-Singapore digital trade agreement as template
- Regional rather than global participation:
 - African Continental Free Trade Area (AfCFTA) includes digital trade provisions
 - Latin America: Pacific Alliance mechanisms
- May form foundation of future multilateral frameworks
- Bypasses both US obstruction and WTO paralysis

IV. The Determinant Factor

Beyond Reactive Responses

National Responses

- ◆ Outcome depends on how nations respond to US disruption
- ◆ **Policy Choices:** Retreat to bilateralism (Fragmentation) vs. building resilient multilateralism
 - Role of middle powers in shaping new trade rules
- ◆ **Early empirical indicators** show sophisticated coordination:
 - ASEAN's coordinated diplomatic response under US tariff pressure
 - EU-CPTPP coalition-building
 - BRICS institutional expansion: NDB financing trends
 - Korea-Japan strategic convergence (?)
- Pattern: '**Competitive regionalism**' maintaining openness vs. **1930s autarky**

Historical Precedent: British Trade Leadership Transition

- When Britain retreated from global trade leadership (early 20th century)
- Result: Reconfiguration around new centers, not collapse
- Today's challenge: Ensure **reconfiguration serves broader community**
- Particularly: Developing countries most vulnerable to disruption
- Opportunity for inclusive rather than power-based governance

The Trust Reconstruction Challenge

- Mary Ng: 'Trust, once broken, is hard to rebuild'
- Challenge: Demonstrate predictability and reliability
- Alternative institutions must provide what US no longer offers
- Countries choose rule-based alternatives when credible options exist
- Key: Moving beyond reaction to proactive construction

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V. Conclusion: The Choice to Define the Future

Three Models for an Emerging Trade Architecture

- Mary Ng: 'Next 2-3 years will shape next generation of trade'
- Parallel institutional construction processes:
 1. EU-CPTPP structured cooperation (ongoing): 39-country block for high-standard trade rules
 2. Asian integration (deepening): RCEP + bilateral cooperation
 3. BRICS expansion (accelerating): Global South alternative architecture
- Each offers pathway beyond US-dominated system, and will determine future trade architecture
- ◆ Transformation to multipolar regionalism: **risks and opportunities**

The Transformation: Risks vs. Opportunities

- **Risks:**

- Fragmented trade blocs excluding smaller economies from **global prosperity**
- Return to **commodity dependence**
- Workers in the developing world permanently trapped in subsistence

- **Opportunities:**

- More inclusive, responsive governance / institutions
- Better representation of 21st-century realities / power shifts
- Maintained institutional pathways for **development through trade**

Building New Frameworks on Reconstructed Trust

- Need frameworks anchored in reliability and predictability, mutual benefit, and reconstructed trust
 - Success depends on proactive building vs. reactive responses
 - Nations must shape rather than merely respond to change
- Question: Will trade order serve humanity's development aspirations?
Or merely reflect balance of power among great nations?
- The choice requires collective action
 - Engage in coalition-building across regions (EU, CPTPP, RCEP, BRICS)
 - Support high-standard plurilateral negotiations and WTO reforms

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Thank You!

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