
Key Takeaways

FPCI Global Town Hall Series #7

Balancing Interests: a North-South Dialogue on Trade Protectionism

Virtually Held on Friday, 28 June 2024

15:00-16:30 Jakarta Time (GMT +7)

A. ABOUT THE SESSION

Countries have been adopting policies of trade protectionism with the purpose to safeguard their domestic industries from foreign competition. Protectionism has long been a contentious issue in international economics, primarily motivated by the desire to safeguard one's domestic economy. However, these measures often end up in trade wars, inefficiencies, and higher costs for consumers. As leading economies like the United States and China engage more in reciprocal tariff escalations, it's inevitable that they significantly disrupt the stability of global supply chains.

And as the world becomes increasingly interconnected, understanding the dynamics of trade protectionism and its implications for international cooperation, economic growth, and global trade norms is now more relevant. This webinar, therefore, aims to delve into these issues, exploring the different perspectives between the Global North and Global South countries.

B. SPEAKERS

1. **Tom Lebong**, Director of Consilience Policy Institute; Former Head of Indonesia's Investment Coordinating Board; and Former Minister of Trade of the Republic of Indonesia
2. **Prof. Simon Evenett**, Academic Director of the MBA programmes at the University of St. Gallen, Switzerland
3. **Dr Sun Lipeng**, Assistant Director & Associate Research Professor at Institute of American Studies, China Institutes of Contemporary International Relations

C. SUMMARY

- a. It has become more and more popular that governments are involving themselves more in international trade. In the past, the common phenomenon was rather the laissez-faire mechanism with minimal intervention and government involvement tends to occur under established trade frameworks. But nowadays the trends have turned into governments disrupting trade flows of other countries, example being the US trade war against China.
- b. Instead of engaging themselves in a 'trade war' and blocking out successful firms, countries should ask the question of why a country is more advanced in certain industries. One example being the boost of the Chinese EV industry – where

- countries should really learn from China as to why their EV industry is growing rapidly.
- c. It was agreed in the discussion that multiple factors drive both protectionist and liberal trade policies. These factors can be practical, such as during the pandemic where G-20 members did not put an export ban on medical goods. Alternatively, it can also be a value-based factor, example being the EUDR banning access markets for Indonesian and Malaysian goods.
 - d. In cases of trade disagreements, it was agreed that collaboration and common ground can bring potentials to resolving conflicts. A common dataset and transparency can reduce distrust and suspicion among disputing parties. **Trade disagreement should also pursue a win-win solution.** For instance if there was a reluctance on the European side to allow previous levels of market access, then one might have to think whether CPO exports from Southeast Asia redirected to other markets, in which case the Europeans have a permanent reduction in their leverage.
 - e. There are challenges for the US, where geopolitical **factors, such as the Ukraine-Russia conflict and broader economic strategies, play significant roles in shaping US-China trade policies. There is concern that these could lead to further economic coercion and geopolitical alignments.** The speakers emphasize the importance of negotiation and cooperation between China and the United States to strengthen bilateral relations and manage trade tensions effectively.
 - f. Many developed countries are now prioritizing fair trade over free trade due to economic resilience, security concerns, and national interests. This shift indicates a fundamental change in economic relations and supply chain dynamics globally.
 - g. China expresses willingness to collaborate with other global north countries to enhance infrastructure investment, improve local economic efficiency, create employment opportunities, and expand the global market, particularly within the global south.

D. KEY TAKEAWAYS

I. **TRADE LIBERALIZATION VIS-A-VIS INDONESIAN PROTECTIONISM AND ITS TRADE POLICY WITH THE INCOMING PRESIDENCY**

“Indonesia has been very reformist and internationalist, from the beginning of President Jokowi’s first term to now being very interventionist, and to use a more traditional term, protectionist, during president Jokowi’s second term.

I think, personally, for me, it was remarkably easy to reform, trade practices, trade policies, in the first term. Both the president and vice president gave me the full support that I needed.

Now, some might argue that, President’s second term coincided with the COVID-19 pandemic, and also with the outbreak of hostilities in Ukraine and more recently, of course, in Palestine. Some will also argue that the rise in protectionist policies in Indonesia, is merely aligned with the same phenomenon, in many other countries around the world.

I would like to urge people to **move on from**, rather old-fashioned terms like, **protectionism or liberalization**. And maybe, **use words like interventionist or distortive like distortive policies, or progressive, and, and internationalist or reformist**. Because what “protectionism” is meant to describe is a heavier state intervention, into trade flows, trade arrangement.

So, before we talk about protectionism versus liberalizing, or closed versus open, interventionist versus light touch, the first question is, do governments want to be very hands on? Do they want to be very interventionist? They want to really intervene, or do they want to be less interventionist?

I think the fact that governments are inclined to intervene more heavily, that's across the board. That's a phenomenon we're seeing, you know, around the world. And one risk that I would highlight is that, a lot of **governments who rely on sensational policy** like banning certain imports or banning certain exports, the way Indonesia, famously banned exports of nickel, right, nickel ore and unprocessed nickel, oftentimes end up, **neglecting, other, policy areas that are required for successful trade, successful investment, successful tourism, successful economic, development.**” Tom Lembong

In terms of the upcoming administration, **the president-elect and vice president-elect have campaigned on a platform of policy continuity**. So we should assume that it also includes the more interventionist, the more distortive, and the more transactional, kind of policies we saw from president Jokowi in the second term. **I think it'll be interesting to see the extent to which markets allow the incoming administration to continue those policies. I would argue that the current policy trajectory is causing too many problems.**

It's actually leading to reduced economic resilience, reduced resilience to supply chain, the supply chain's shocks, and the like. But, again, they are constitutionally elected. So, they will, number one, be held accountable for delivering on their campaign promises. Number two, they will need to deal with the markets here, on the consequences of the policies that they're seeking to continue.” Tom Lembong

II. DEVELOPMENT OF THE GLOBAL TRADE

“Previously, governments were often distorting trade but they were moving at the margins, as in what is allowed under trade rules. Then, we move into the next phase where it became popular in some jurisdictions to be seen to be hitting other countries' trade. The leading example of this would be President Trump's trade war against China. Over time, there are more trade policies where politicians are standing up, saying, we intend to hit our trading partners.

Then we get to the third phase, which is the pandemic response. It's quite natural during this phase that there was a lot of public policy intervention. The question really becomes whether it was particularly well designed and whether we had to distort trade and export or put in place export bans and things like this. **It's very important to highlight that during the pandemic, there were a number of G-20 members that did not put in place export bans on medical goods. So, the argument that these things are a necessity, you have to do this, is actually contradicted by the evidence if you look into it.**

What we're learning is that no matter how important that imperative is, there are other factors which are driving trade policy at times like this, whether it is geopolitical rivalry, elections, and the like. **These will take us, sometimes, in directions which are actually counterproductive in terms of transition to a cleaner energy economy.**

There's the classic tensions in trade policy, which often come to the fore very much in electric vehicles and in climate related goods. It speaks to a consideration which is the government, elevating trade policy solutions ahead of thinking about what the underlying problems are. **If one has an EV industry which is behind, then one might want to ask the question, why is that, rather than trying to block out firms and companies which have got their act together.**

When you allow trade policy instruments to take up all the bandwidth, then often governments stop thinking creatively about the supply sides of their economies and what it takes to help, business people create successful competitive companies, which ought to be the industrial policy objective, not some of the objectives which you described typically these days." **Prof. Simon Evenett**

III. CHINA'S ATTITUDE TOWARDS FREE TRADE

"I think that **China's public opinion is still, welcome free trade and try to still, take our pinching efforts to reform the penny up.** As you know, recently, since the pandemic, China's economy is now facing some problems and difficulties. And with this background, I think China **is trying its best to stimulate its economic recovery.** In the past many years, we just depended on export.

And this year we try to depend more on investment and construction and we have new economic policies of, new quality and productive forces. So it's a very important thing that we must try to open our market and continue to improve our domestic business environment, absorb a lot of FDI around the world into China's market and fund this as a German force to stimulate our economic recovery. **So in China, I think public opinion is still welcoming of the other countries** – [when it comes to] free trade and market opinion.

I think this is the first one and the second one that I must emphasize. Since **the pandemic and the United States and other countries, the West has imposed tariffs on China.** China's supply chain's passion is undergoing fundamental change in the past many years. We export materials and accompany them from Asian countries and the regional countries and they are assembling in China. Now that export to the European Union, to United States, but **now China adjusted this and we try to invest more on the Asian countries** and, it creates part to the United States and the European Union so China is trying its best to promote the regional economic integration, [in conclusion] **everyone know trade is free trade is very very important for China."** **Dr Sun Lipeng**

IV. THE STATE OF CHINA-US TRADE RELATIONS IN THE PERSPECTIVE OF CHINA

China - US relations are the most important and complicated bilateral relations in the world. And, in my opinion, in the past many years, China - US trade relations still play a positive role in stabilizing bilateral relations in China and the United States.

If we look back at the four years of the Biden administration, the United States took some tough tariffs and implemented some policies of so-called derisking. In 2023 China and the US bilateral goods and services trade reached about 600 and 30 billion US dollars. **So it means that two countries' economic trade intertwined deeply. I think trade tensions will not only harm the United States or China's benefit or its spillover effect will harm the free trade war. So, for the past four years I think the China-US trade relations are not good but it's not so bad.** From a positive perspective, first our president and president Biden met last year, and there were some concerns of San Francisco, and they will try to get countries to stress economic cooperation is the first one.

The second one is that even though there is a lot of trade friction between our two countries, the executive economic team still keeps a close communication. **The third one is about how I can give you a statistic about the economy between China and the United States because now that about seventy seven percent of the US companies which do business in China have no plans to withdraw from China. They still want to do business here.** This means that China's and the United States' government driven forces for economic competence remain strong. The fourth spot you mentioned is tariff issues and recently USTR imposed three zero one tariffs and launched new tariffs on China.

China and the US trade friction may escalate again, but I don't think China and the US have another trade war. If China and the US do it well it will contribute positive factors to bilateral relations. But at the same time, I want to say that from another perspective that China and the US also have faced some challenges. First is about tariffs. If we see the US new tariff is very targeted and strategic and focused on China's EV, and the solar panel.” **Dr. Sun Lipeng**

V. PROMOTING VALUE-BASED POLICIES AND NOT TRANSACTIONAL

“We would like to promote the concept from our organization, **which we call value-based policy rather than transactional policy.** So concurrent with heavier state intervention are arguments by governments that they need to do this to protect their economies, protect local industry, promote investment, promote economic growth and so on. **If you look at what drives business success lately, it is actually more around values.**

Now I believe the Europeans would, partly at least lean on that argument as well. The anti deforestation law is meant to conserve nature and combat climate change. This is, not only, in our own self interest, as human beings. So we wanna solve the climate crisis, but also make sense, from a moral perspective.

As countries in between, such as Indonesia, Malaysia, Vietnam, and the like, Certainly, I believe that the best way is as much as possible to adhere to principles based and values based policy. I personally estimate **we would agree with Washington seventy percent of the time, but disagree with Washington about thirty percent of the time. We'd also agree with Beijing, seventy percent of the time, but we'd disagree with Beijing thirty percent of the time.**

But, **number one will be more consistent,** because we'll be driven by a consistent set of values, consistent set of principles. And **secondly,** hopefully, **it would deescalate, depoliticize, the policy dialogue.** Because both Washington and, and Beijing would be

able to understand and respect, that our policy positions are not driven by, you know, like or dislike or, you know, pro or anti, you know, by bipartisanship, but by, values which in many cases or maybe I would say in most cases, we share in common with, with Beijing and Washington

It's actually possible to have both malnutrition and obesity at the same time. It might be lacking essential nutrients. You might be poorly nourished, whilst, you know, ingesting or consuming way too many calories, making yourself, you know, quite obese and and causing yourself a lot of health problems. **Therefore, we really believe in this value-driven, value-oriented approach to policy, whether that's trade policy, economic policy, and foreign policy.**" Tom Lembong

VI. GLOBAL SOUTH AS A NEW, GROWING ECONOMIC

I went into the latest global statistics on FDI into Indonesia, and it has been in the 20 to 25 billion a year inflow range since 2017. I see no repatriation of funds or or things moving away from Indonesia. If anything, the flow inward has been fairly constant. And I could say the same about many other big players in what you call the global south. When I see numbers like that I get a little bit nervous. We did a whole series of interviews with international corporations last year. We asked them, are you reshoring? And there's a very interesting divide. If you talk to North American companies, they will say that they're under pressure from their customers to do this. But no other group of multinationals that we spoke to in other parts of the world said the same thing. Now we are beginning to hear a little bit of data on the European side about possible intentions to, to either reshore or move some production out of places like China. But again, not much has actually happened. So I would caution that this narrative's almost becoming self fulfilling. Even in the North American context, it's worth noting that while some US scholars are talking about what they call the great reallocation of factories, In fact, when people look at the numbers for Canadian firms, Canadian firms are not shifting their sourcing decisions at all.

So, again, even within North America, there does not appear to be a consistent pattern. So I think this is one of these areas where the narrative has got quite far ahead of the facts. Now I should say that in the next one or two weeks, the United States will publish its inflow of foreign direct investment data for last year. And this will be very interesting because it will show whether or not we see a lot of foreign companies setting up in the United States in the sectors where the Inflation Reduction Act was operative. Last July's report showed very little uptake by European firms, a bit more by Japanese and Korean firms, but not much more not out of that.

Now, there is one area where the data is unmistakably clear. This is where we have a big difference from the Cold War era when the non aligned countries of which I believe Indonesia was one of them, these were countries which were significant in terms of population, but not so much in terms of economic weight. This time around, we have quite a large nonaligned movement of emerging markets, which you call perhaps the global south, which have quite a lot of economic heft, much more economic heft than in the past. These nonaligned countries are gonna get a lot of attention. I think in many ways, this new phase of

geopolitical rivalry will be quite different from the old one, where we have what you call a global south having a lot more heft, collective heft.” **Prof. Simon Evenett**

VII. CONCLUDING REMARKS

“Thank you for this opportunity to participate today. I think my concluding remark would be: the world trading system, in the future, will be whatever we want it to be, whatever we make it. And that's very important because we do have agency. We saw overnight how suspicion and fears can drive rhetoric and politics. And I think the technocratic alternative, which is grounded in trying to identify areas of mutual interest, shared values, and trying to, resolve issues based on high quality information and data, letting the logic take as much role in these deliberations as possible.

So I think my advice to everyone would be let's double down on the technocratic approach. Let's try and ground as much of what we talk about in high quality evidence and facts. Let's improve our information diets and screen out some of this, some of the suspicions which are generated by people who want to divide us, and then we will get a trading system which will continue to support growth of living standards, which Southeast Asia and East Asia in general has benefited so much from.” **Simon Evenett**

“I am optimistic as well as cautious about the short term, medium term, and long term future for global trade. I'm optimistic because I sincerely believe that global trade is not only continuing, it's growing, just in a different shape than what we're accustomed to. I think politicians like to be very focused on trading goods or what we call merchandise trade. But arguably the biggest opportunity now in the digitizing world and in, Internet driven world, will be, trade over the Internet, you know, trade in digital goods, digital services, anything that can be digitized.

As trade officials we often don't include data flows, in our metrics, in our measurements. We do measure trading services, but even trading services tends to be much neglected in favor of sensational policies around trading goods.

If we can find areas of agreement, whether it's with Beijing or with Washington or, with each other around the world, then we have less reason to be suspicious of each other. Hopefully, it subpates trade, tourism, investment, and exchange. Lastly, the world moves in cycles, and politics moves in cycles, and policy moves in cycles. The pendulum always swings, you know, from one extreme together. So, whilst we might be in a period of rising state intervention. Suddenly, a few years from now, we will wake up in a period of governments in retreat, where governments are returning power to the private sector or to the markets.” **Tom Lembong**

"I think I have one view and four advices. First, **I must emphasize that many developed countries no longer emphasize free trade, but so-called fair trade.** So protection manners in the global north have become increasingly common because of the rapid economic development in the Global South.

So economic relations of big powers are undergoing a fundamental change. So the bigger power competition is complex. Now I'm imparting the global trade environment. So in my judgment that the past global free trade is no longer to return. Under this background, I think

China, global south should draw hands to stress economic cooperation. First, I think the very important thing is that the major economic power needed to manage economic competition and keep exploring areas where we can cooperate. Stable relations between major countries can inject positive factors into the healthy development of trade.

The second is developed countries and the developing countries should cooperate, making the WTO play a bigger role in multilateral trade cooperation. Forward restart is a dispute settlement mechanism. I think this could make it better to restrict member countries from protectionism. Each country should settle trade disputes through negotiation and avoid full time trade wars of natural retaliation. I think this is very important. The third is about China willing to strengthen cooperation with the global north countries, invest more infrastructure and improve the local economic efficiency, create more opportunities for employment and gradually expand the big market of the global south. I think that this is very important to realize more trade circulation within the global north market.

I also emphasize that one word, trade system is very important so the global south is eager for development. The final goal and the ultimate goal is to raise people's living standards not to challenge or replace the dominance of the other big power. So the global north should also separate trade issues from political issues and the security issues and take more friendly trade policies. It's also the fundamental interest of all of the people of all of the world." **Dr. Sun Lipeng**