

Research Paper

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Trade Policy Under President Trump

Implications for the US and the World



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Summary

- Having played a crucial role in shaping the global trade system since the end of the Second World War, the US under the presidency of Donald Trump will no longer take the lead in pressing for new free-trade agreements and multilateral trade rules. However, the global trade system, and the US's role in it, was in trouble before Trump's victory in 2016. Americans are increasingly sceptical of free-trade agreements, even if they generally view free trade positively.
- Some of Trump's success in tapping into the sentiments of voters who felt that they had been left behind by trade was based on misperceptions (such as the overstated impact of trade on jobs and wages, or a discourse that placed heavy emphasis on the US merchandise trade deficit while largely ignoring the surplus in the services sector). However, he also pointed to valid concerns about international trade (among them insufficient adjustment mechanisms for those adversely affected by trade, and unfair practices by some other countries).
- Although Trump's campaign rhetoric suggested a fundamental change in trade policy, his administration so far seems to be taking a more moderate and conventional approach. Despite significant presidential powers on trade, there are constraints ranging from the role of Congress to infighting between major Republican factions, the involvement of the cabinet and agencies, economic considerations, voter preferences, and the prevailing international environment on trade.
- During his early months in office, Trump's sole definitive action on trade was to withdraw from the Trans-Pacific Partnership. He has since initiated the renegotiation of the North American Free Trade Agreement. He did not, contrary to his campaign promise, designate China a currency manipulator on 'day one' of his administration; nor has he taken any action to impose across-the-board tariffs on imports from China and Mexico.
- Reducing the US trade deficit, making more aggressive use of trade remedies, and tackling perceived unfair practices will be key pillars of Trump's policy. And given his preference for bilateral deals, the outlook for current negotiations with the EU and on the Trade in Services Agreement is uncertain.
- While an outright trade war – especially with China – is increasingly unlikely, more moderate trade-restrictive measures will still have negative economic consequences for the US and globally. Trump's trade policy will also have wide geostrategic implications, from the adverse effects of withdrawal from 'mega-regional' trade deals on US leadership and relationships with key partners to an increased role for trade in a deal-making model of foreign relations and greater friction in international forums such as the World Trade Organization and the G20.
- Without the US as its champion, the global trade agenda risks faltering. But although productive engagement with Trump on trade will be a challenge for the US's partners, there are other potential routes that could have a moderating effect on his protectionist intent. Moreover, there is an opportunity to move the debate forward and strengthen global trade by addressing some genuine shortcomings within the current system.

1. Introduction

The US has played a crucial role in shaping the global trade system since the end of the Second World War. With its allies in Europe, North America and Asia, as well as elsewhere, the US led efforts to remove trade barriers and to set up the global and regional trade architecture. However, this leadership has waned in recent years, not least because anti-trade sentiment among the American public is on the rise.

During the 2016 presidential election campaign, both the Republican and Democratic candidates tapped into the public's growing concerns regarding free-trade agreements.¹ Neither Donald Trump nor Hillary Clinton expressed willingness to move the US-led Trans-Pacific Partnership (TPP) forward. Moreover, Trump threatened to renegotiate or withdraw from existing arrangements, including the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA), and to impose new tariffs on imports, particularly from China and Mexico.

A more protectionist US that is no longer willing to lead on global trade liberalization will have important implications both domestically and for its partners worldwide.

It should be noted that the backlash against the prevailing liberal trade order is not unique to the US, with growing scepticism towards free-trade agreements being expressed in major European countries such as Germany and France. But a more protectionist US that is no longer willing to lead on global trade liberalization will have important implications both domestically and for its partners worldwide.

After setting out the historical, economic and political context of contemporary US trade policy, this paper examines the reasons underlying the current US antagonism towards free-trade deals, and the extent to which public concerns about the impact of trade are legitimate. It sets out the likely constraints on President Trump's protectionist trade agenda, and assesses what is in store for US policy under his administration. The potential domestic and wider geostrategic implications of this new, 'America first' trade policy are examined, including the international economic and strategic effects of a US withdrawal from 'mega-regional' trade deals and the consequences arising from a 'deal-making' model of foreign relations that uses trade as a bargaining chip. In conclusion, the paper outlines how, notwithstanding the incumbent president's apparent inward focus and protectionist rhetoric, a new framework might move the debate forward and strengthen global trade.

¹ Throughout the paper, the terms 'trade agreement' and 'free-trade agreement' can be regarded as synonymous unless otherwise stated.

2. Contemporary US Trade Policy in Context

The US has been one of the driving forces behind the establishment of the global trade framework, institutions and rules. After 1945 the US administration, together with the British, led two initiatives to promote and govern trade globally: the General Agreement on Tariffs and Trade (GATT), which took effect from January 1948; and the International Trade Organization (ITO). However, efforts to establish the latter were met with strong opposition from the US Congress, and effectively came to an end in 1950 with the announcement by President Harry Truman that he would no longer seek congressional approval of the ITO charter.

GATT, while not a formal international organization, thus became the only multilateral mechanism that governed trade until it was succeeded by the WTO in 1995. The US again played a major role in the creation of this new institution at the heart of the world's trade system. The GATT Uruguay Round of negotiations, which resulted in the establishment of the WTO, was launched by President Ronald Reagan in 1986 and concluded under President Bill Clinton in 1994. The WTO now spans 164 members. Average tariffs applied by WTO members have fallen from close to 12 per cent in 1996 to around 9 per cent in 2013, while the value of global trade in goods has nearly quadrupled over the same period, reaching \$19 trillion in 2013.²

As participation in GATT and membership in the WTO has expanded, and the less contentious 'wins' for liberalizing trade have been achieved, it has become increasingly difficult to build consensus on new liberalization agendas, and each trade round has taken longer to complete. A final deal remains elusive in the current Doha Development Round – in progress since 2001 – with agriculture being a major sticking point.

In light of the stalled progress to liberalize trade multilaterally under the umbrella of the WTO, bilateral or regional free-trade agreements have proliferated. The US currently has 14 such agreements with 20 countries, 12 of which have entered into force since 2001.³ Negotiations for the TPP were completed under President Barack Obama, but in January 2017 the newly inaugurated President Trump signed an executive order withdrawing the US from the TPP. Negotiations for the Transatlantic Trade and Investment Partnership (TTIP) between the US and the European Union (EU) have been under way since 2013; and the US and the EU are also among the 23 members of the WTO currently negotiating the Trade in Services Agreement (TiSA). At present, however, the future of both TTIP and TiSA remains uncertain under the Trump administration.

Growth in global trade has latterly decelerated compared with its strong historical performance and with world economic growth. The volume of global trade in goods and services has increased by approximately 3 per cent annually since 2012 – less than half the average trade growth rate over the three decades before the global financial crisis hit in 2007.⁴ Whereas global trade grew on average twice as fast as world GDP in real terms between 1985 and 2007, trade growth has barely kept pace

² World Trade Organization (2015), *Trade and Tariffs: Trade Grows as Tariffs Decline*, https://www.wto.org/english/thewto_e/20y_e/wto_20_brochure_e.pdf (accessed 16 Jun. 2017).

³ US Department of State (2017), 'Existing U.S. Trade Agreements', <https://www.state.gov/e/eb/tpp/bta/fta/fta/index.htm> (accessed 16 Jun. 2017).

⁴ International Monetary Fund (2016), 'Global Trade: What's behind the Slowdown?', in *World Economic Outlook: Subdued Demand – Symptoms and Remedies*, Washington, DC: International Monetary Fund, <https://www.imf.org/external/pubs/ft/weo/2016/02/pdf/c2.pdf> (accessed 16 Jun. 2017).

with GDP growth over the past five years. Some of the reasons for this trade growth slowdown are the general weakness in economic activity, the fading pace of trade liberalization, the declining growth of global value chains, and the recent rise in protectionism.⁵

Despite the G20's repeated commitments to open markets in the wake of the 2007–09 global financial and economic crisis, there has been a steady pattern of introducing trade-restrictive measures by the world's leading economies. According to the WTO, an average of six new trade-restrictive measures were rolled out by G20 countries each month between October 2016 and May 2017, including new or increased tariffs, customs regulations and rules-of-origin restrictions.⁶ In 2009–15 the average was seven new measures per month, and in 2016 on average five measures were introduced each month. Although the US is not one of the leading countries introducing trade-restrictive measures, it is one of the main initiators of trade-remedy investigations, which are not formally classified as restricting or facilitating trade, such as anti-dumping and countervailing measures. China has been by far the most frequent subject of these US investigations.⁷ Thus, given the global economic uncertainties and a surge in anti-trade rhetoric around the world, support for an open trade system will remain a key concern.

The benefits of trade for the US

While trade as a share of national GDP has risen markedly over the past 50 years, the US remains less reliant on trade as a contributor to economic activity than does much of the rest of the world. US exports and imports together contributed just 9 per cent of GDP in 1960 (compared with a global average in that year of 24 per cent), rising to 28 per cent of GDP in 2015 (as against a global average of 58 per cent).⁸

There are numerous ways in which the US benefits from global commerce. Trade, in particular exports, has a critical role in supporting a healthy economy and employment. American goods and services exports were valued at \$2.2 trillion in 2016,⁹ and were calculated to support 10.7 million US jobs.¹⁰ Through trade agreements, American firms have benefited from access to foreign markets, helping them to grow and innovate. Export-intensive industries pay employees approximately 15 per cent more than other ones.¹¹ Trade contributes to lower domestic prices and to more product variety for consumers. The benefits from international trade amounted to \$13,600 per US household per year based on data from 2013.¹²

Trade has been, and continues to be, a key instrument of US foreign policy. By opening its market to imported goods, the US has helped to foster economic development abroad. Negotiating trade agreements has helped the US to establish close links with countries around the world, cementing existing alliances and supporting engagement with strategically important states and regions where the US does not always have a military presence. For the most part, the US's free-trade agreements are with countries where US interests go beyond the purely economic into broader foreign policy areas. The

⁵ Ibid.

⁶ World Trade Organization (2017), *Report on G20 Trade Measures*, 30 June 2017, Geneva: World Trade Organization, https://www.wto.org/english/news_e/news17_e/g20_wto_report_june17_e.pdf (accessed 18 Jul. 2017).

⁷ Ibid.

⁸ World Bank (2017), 'World Development Indicators – Trade (% of GDP)', <http://databank.worldbank.org/data/reports.aspx?source=2&series=NE.TRD.GNFS.ZS&country=> (accessed 16 Jun. 2017).

⁹ US Census Bureau (2017), 'U.S. International Trade in Goods and Services', https://www.census.gov/foreign-trade/Press-Release/current_press_release/exh1.pdf (accessed 29 Sept. 2017).

¹⁰ Rasmussen, C. (2017), *Jobs Supported by Exports 2016: An Update*, Washington, DC: US Department of Commerce, International Trade Administration, http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005543.pdf (accessed 29 Sept. 2017).

¹¹ Riker, D. (2015), *Export-Intensive Industries Pay More on Average: An Update*, Washington, DC: US International Trade Commission, <https://www.usitc.gov/publications/332/ec201504a.pdf> (accessed 16 Jun. 2017).

¹² Slaughter, M. J. (2014), *How America is Made for Trade*, Washington, DC: HSBC Bank USA, <http://cmbinsight.hsbc.com/americanmadeformtrade> (accessed 16 Jun. 2017).

US's first free-trade agreement was negotiated with Israel – not an important trade partner in overall economic value but a very significant strategic ally in the Middle East. Today, only three of the countries with which the US has free-trade agreements rank among its top 15 merchandise trade partners.¹³

The end of the trade consensus

Opinion polling conducted in February 2017 showed that a record high of 72 per cent of Americans viewed trade as an economic opportunity.¹⁴ But support for trade in general does not equate to support for free-trade agreements, about which Americans have shown themselves to be increasingly sceptical. In April 2017 some 52 per cent of Americans surveyed said that free-trade agreements with other countries had been a good thing for the US, down from 59 per cent in 2014.¹⁵ In contrast, 40 per cent said that trade deals had been a bad thing, an increase of 10 percentage points over the same period.

Support for further liberalization has meanwhile weakened in Congress as the once bipartisan consensus on trade has broken down. While the earlier agreements that the US concluded saw significant bipartisan support for free trade, later ones have been more controversial and have resulted in far more partisan votes. The 11 free-trade agreements on which Congress voted between 2001 and 2015 received almost unanimous backing from Republicans in the House of Representatives, who supported ratification more than 91 per cent of the time, while Democrats in the House voted in favour 36.5 per cent of the time.¹⁶

Although the Republican Party has traditionally been more supportive of free trade, in October 2016 – i.e. just before the most recent elections – Republican voters viewed free-trade agreements less favourably (29 per cent had a positive view) than did Democratic voters (59 per cent).

Although the Republican Party has traditionally been more supportive of free trade, in October 2016 – i.e. just before the most recent elections – Republican voters viewed free-trade agreements less favourably (29 per cent had a positive view) than did Democratic voters (59 per cent).¹⁷ Republicans' support for free-trade deals fell significantly during the presidential campaign, and in line with Trump's consistent attacks on trade, but had already been declining since 2014. Thus, Trump's tough rhetoric on the 2016 campaign trail was not necessarily at odds with the Republican outlook on trade. Democrats have expressed more favourable views of free-trade agreements than have Republicans since 2009.¹⁸ It is striking that during the 2016 presidential race Democrats' support for free-trade agreements remained fairly stable, despite Hillary Clinton's and Bernie Sanders' criticism of trade deals in general and of the TPP in particular.

¹³ These are Canada, Mexico and South Korea. US Census Bureau (2016), 'Top Trading Partners – December 2016', <https://www.census.gov/foreign-trade/statistics/highlights/top/top1612yr.html> (accessed 16 Jun. 2017).

¹⁴ Swift, A. (2017), 'In US, Record-High 72% See Foreign Trade as Opportunity', Gallup, 16 February 2017, <http://www.gallup.com/poll/204044/record-high-foreign-trade-opportunity.aspx> (accessed 16 Jun. 2017).

¹⁵ Jones, B. (2017), 'Support for free trade agreements rebounds modestly, but wide partisan differences remain', Pew Research Center, 25 April 2017, <http://www.pewresearch.org/fact-tank/2017/04/25/support-for-free-trade-agreements-rebounds-modestly-but-wide-partisan-differences-remain/> (accessed 16 Jun. 2017).

¹⁶ DiSalvo, D. and Kucik, J. (2015), 'Confused Coalitions: Republicans and Democrats on Free Trade', *National Interest*, 5 November 2015, <http://nationalinterest.org/feature/confused-coalitions-republicans-democrats-free-trade-14257> (accessed 16 Jun. 2017).

¹⁷ Jones (2017), 'Support for free trade agreements rebounds modestly, but wide partisan differences remain'.

¹⁸ *Ibid.*

The partisan divide on trade is also evident in views on NAFTA, which was a central issue in Trump's trade criticism during the campaign. In polling conducted in February–March 2017, 68 per cent of Democrats saw NAFTA as good for the US, as opposed to 30 per cent of Republicans.¹⁹ The partisan assessments of NAFTA also depend on demographic differences among the parties' bases: women, the young and African Americans as well as Hispanics (historically Democratic voters) see NAFTA in a more positive light than do men, people over the age of 50 and non-Hispanic whites (generally Republican-leaning voters).²⁰

¹⁹ Stokes, B. (2017), 'Views of NAFTA less positive – and more partisan – in U.S. than in Canada and Mexico', Pew Research Center, 9 May 2017, <http://www.pewresearch.org/fact-tank/2017/05/09/views-of-nafta-less-positive-and-more-partisan-in-u-s-than-in-canada-and-mexico/> (accessed 18 Jul. 2017).

²⁰ Ibid.

3. Understanding the Backlash Against Trade

What can explain the recent rise in anti-trade sentiment in the US? This section analyses some of the key concerns expressed. To what extent are they legitimate, and to what extent has trade become the bogeyman?

The impact of trade on jobs, wages and inequality

A focal point of Donald Trump's election campaign was 'bad' trade deals, which he blamed for killing manufacturing jobs at home and depressing the wages of American workers. Bernie Sanders used similar rhetoric during his bid to secure the Democratic Party nomination. Hillary Clinton also vowed to 'stop any trade deal that kills jobs or holds down wages'.²¹

Mainstream economic theory holds that while the losses arising from trade liberalization in the form of job displacement and lower wages are concentrated in particular sectors of the economy and geographic areas, the gains are spread more widely. Economists and policymakers alike have in public discourse focused largely on the benefits stemming from trade. Their failure to acknowledge the attendant costs has created a space for those tapping into the sentiments of people who feel left behind.

According to theory, those benefiting from trade will not collectively stand up to promote its liberalization because the gains are more diffused across the population, whereas those adversely affected have a greater incentive to speak out against further liberalization because the detrimental aspects are more concentrated. This helps explain why all of the leading contenders in the 2016 presidential election appealed to those hurt by trade, even though the majority of Americans still viewed trade positively.²²

The rise of China in the global economy, and its admission to the WTO in 2001, contributed to job losses in the US. A recent study, published in 2016, found that the growth in imports from China between 1999 and 2011 cost the US up to 2.4 million jobs. About 985,000 of those lost jobs were in manufacturing, accounting for some 17 per cent of the 5.8 million manufacturing jobs lost during that period.²³

Another study, published in 2017, concluded that 13 per cent of the job losses in manufacturing between 2000 and 2010 have resulted from trade. Over 85 per cent, meanwhile, were caused by productivity growth stemming from automation and other technologies.²⁴ In other words, trade is not blameless, but neither is it the main culprit in the hollowing-out of the US manufacturing base.

Workers who have lost their jobs because of trade find it very hard to obtain new employment at comparable wages. In addition to reducing their lifelong earnings potential, there is often a skills mismatch that prevents displaced workers from simply transitioning to different sectors of the economy.

²¹ Pramuk, J. (2016), 'Clinton and Trump can agree on at least one thing', CNBC, 11 August 2016, <https://www.cnbc.com/2016/08/11/trump-and-clinton-now-sound-similar-on-one-key-issue.html> (accessed 16 Jun. 2017).

²² Swift (2017), 'In US, Record-High 72% See Foreign Trade as Opportunity'.

²³ Autor, D. H., Dorn, D. and Hanson, G. H. (2016), 'The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade', *Annual Review of Economics*, 8(1): pp. 205–40, <https://doi.org/10.1146/annurev-economics-080315-015041> (accessed 16 Jun. 2017).

²⁴ Hicks, M. J. and Devaraj, S. (2017), *The Myth and the Reality of Manufacturing in America*, Muncie, IN: Ball State University Center for Business and Economic Research, <http://projects.cberdata.org/reports/MfgReality-20170428.pdf> (accessed 16 Jun. 2017).

Regarding the impact of trade on income inequality, former treasury secretary Lawrence Summers acknowledged in 2015: ‘The consensus view now is that trade and globalization have meaningfully increased inequality in the United States by allowing more earning opportunities for those at the top and exposing ordinary workers to more competition, especially in manufacturing.’²⁵ But, again, most research concludes that trade accounts for a relatively small share of inequality, and that other factors, such as technological changes, are much more important drivers.²⁶

Overall, the impact of trade as opposed to technological change on the labour market is not easy to distinguish: these two factors can go hand in hand.

Overall, the impact of trade as opposed to technological change on the labour market is not easy to distinguish: these two factors can go hand in hand. For instance, following China’s entry into the WTO, increased competition spurred technological change in US firms that led to reductions in employment and wages for Americans.

Insufficient adjustment mechanisms

The US has had a federal government programme – Trade Adjustment Assistance (TAA) – in place since the early 1960s to help workers whose jobs have been displaced by trade. TAA provides funding for training and re-employment services, income support and a tax credit for health coverage for workers who have lost their jobs or experienced a reduction of hours and wages as a result of an increase in competitive imports or shifts in production to a foreign country.²⁷

Yet while the existence of TAA acknowledges that trade is responsible for some displacement in the labour market, stringent eligibility criteria apply, with assistance restricted to workers who can demonstrate that their employment has been adversely affected by foreign trade. Of the almost 7.8 million Americans unemployed in 2016,²⁸ of whom 126,844 were eligible for TAA support, only 45,814 participants were served by TAA in fiscal year 2016 (1 October 2015–30 September 2016).²⁹

TAA is also widely considered to be ineffective. For instance, an evaluation published in 2012 estimated that, without considering the benefits of TAA in potentially promoting free trade, the scheme caused a net loss to society of about \$53,800 per participant. Almost half of this loss fell on participants (who earned about \$26,800 less than comparable workers who found re-employment not through TAA), with the remainder falling on taxpayers (in the form of footing the programme’s costs – e.g. payments to participants, cost of training and re-employment services – of \$27,000 per participant).³⁰

²⁵ Summers, L. (2015), ‘A deal worth getting right’, *Washington Post*, 8 March 2015, https://www.washingtonpost.com/opinions/its-worth-getting-the-tpp-trade-deal-right/2015/03/08/a1017428-c42f-11e4-ad5c-3b8ce89f1b89_story.html?utm_term=.7bf6694fbaec (accessed 16 Jun. 2017).

²⁶ Organisation for Economic Co-operation and Development (OECD) (2011), *Divided We Stand: Why Inequality Keeps Rising*, Paris: OECD, <http://dx.doi.org/10.1787/9789264119536-en> (accessed 16 Jun. 2017).

²⁷ Collins, B. (2016), *Trade Adjustment Assistance for Workers and the TAA Reauthorization Act of 2015*, Washington, DC: Congressional Research Service, <https://fas.org/sgp/crs/misc/R44153.pdf> (accessed 16 Jun. 2017).

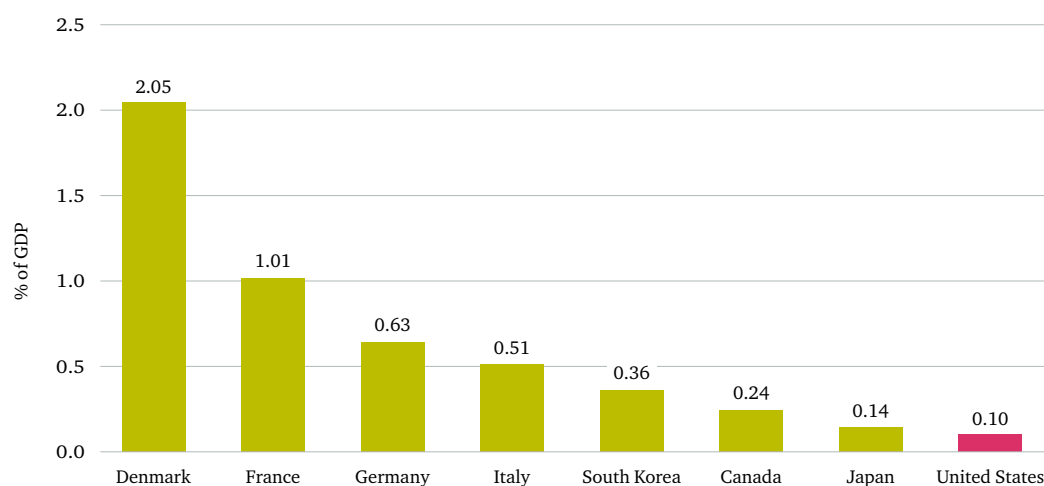
²⁸ US Department of Labor, Bureau of Labor Statistics (2017), ‘Labor Force Statistics from the Current Population Survey’, <https://www.bls.gov/cps/cpsaat01.htm> (accessed 16 Jun. 2017).

²⁹ US Department of Labor, Employment and Training Administration (2016), *Trade Adjustment Assistance for Workers Program – Fiscal Year 2016*, <https://www.doleta.gov/tradeact/docs/AnnualReport16.pdf> (accessed 16 Jun. 2017). Note that the discrepancy between eligibility for and being served by TAA arises because of a two-step process. First, a group of adversely affected workers must petition the Department of Labor, which then investigates the role trade played in the workers’ job loss. Second, once a group’s petition is certified, workers may apply for individual TAA benefits. However, many certified workers choose to seek reemployment without TAA assistance or retire.

³⁰ D’Amico, R. and Schochet, P. Z. (2012), *The Evaluation of the Trade Adjustment Assistance Program: A Synthesis of Major Findings*, Oakland, CA: Social Policy Research Associates and Princeton, NJ: Mathematica Policy Research, <https://www.mathematica-mpr.com/download-media?MediaItemId={DE128B8A-0456-41C0-96B0-ACB6D7752D1D}> (accessed 16 Jun. 2017).

The US spends little on helping those who have lost their job due to trade get back into the workforce. In fiscal year 2016, TAA for workers had a budget of \$802 million (or 0.004 per cent of GDP).³¹ Among advanced economies, the US has one of the lowest spending levels on active labour-market adjustment programmes (see Figure 1).³²

Figure 1: Public expenditure (% of GDP) on active labour-market programmes (2015)



Source: Organisation for Economic Co-operation and Development (2017), 'Table Q – Public expenditure and participant stocks in labour market programmes in OECD countries, 2014 and 2015', in *OECD Employment Outlook 2017 – Statistical Annex*, <http://www.oecd.org/employment/emp/StatisticalAnnex-EmO2017.pdf> (accessed 16 Jun. 2017).

'Unfair trade practices' by other countries

So-called unfair trade practices by other countries – such as dumping, subsidies, the use of state-owned enterprises and currency manipulation – distort competitiveness, thus contributing to job losses and lower wages in adversely affected domestic industries. A study published in 2012 estimated that at least 1 million US jobs were lost in 2011 due to currency manipulation by more than 20 countries (including China, South Korea and Taiwan).³³

The use (and often even the perceived use) of unfair trade practices by other countries undermines US public trust that the playing field is level. China has built up excess capacity in industries such as steel through government measures including subsidies and state ownership. Under WTO rules and US law, countermeasures can be taken to address subsidies and dumping. The TPP would have incorporated rules on state-owned enterprises, but no enforceable provisions on currency manipulation. The current systems for defining and countering unfair trade practices are in need of reform.

³¹ US Department of Labor, Employment and Training Administration (2017), *FY 2017 Congressional Budget Justification*, <https://www.dol.gov/sites/default/files/documents/general/budget/CBJ-2017-V1-07.pdf> (accessed 16 Jun. 2017).

³² Those countries that have the highest public expenditure relative to GDP on active labour-market programmes (Denmark and France) have a higher unemployment rate than the US. However, other countries that also spend a larger share than the US (such as Germany and South Korea) have a lower unemployment rate.

³³ Bergsten, C. F. and Gagnon, J. E. (2012), *Currency Manipulation, the US Economy, and the Global Economic Order*, Washington, DC: Peterson Institute for International Economics, <https://piie.com/sites/default/files/publications/pb/pb12-25.pdf> (accessed 16 Jun. 2017).

Trade negotiations, transparency and investment protection

Trade agreements are no longer predominantly about reducing tariffs. With average tariffs standing at relatively low levels since the early 2000s, negotiations increasingly focus on regulations, standards and norms. This has given rise to a debate about whether trade agreements could impede governments in maintaining, adopting or changing domestic regulation. Latterly, in this context, public alertness to trade negotiations and agreements has been much higher than was historically the case. Regarding the TPP, critics in the US raised concerns about its potential impact on the environment, labour standards and consumer issues (such as food safety standards, data privacy and intellectual property rights). Similar aspects were raised by opponents in other TPP countries, with a particular focus on the agreement's potential impact on copyright protection, patent rules for new medicines, and food labelling and safety. While many of these concerns were exaggerated, supporters of the TPP were not successful in addressing them.

The TPP process received far greater public attention in the US than have the negotiations for TTIP. In the latter case, the US and the EU have repeatedly emphasized that both sides would retain their high standards and the right of governments to regulate. There have, however, been massive protests across Europe – including in countries such as Germany where support for free trade has traditionally been strong – that have fuelled a heated political discourse.

Recent trade negotiations – in particular for the TPP and TTIP – have come under fire for not being transparent enough. As part of the TPP and TTIP processes, US negotiators have provided information about negotiating rounds, have briefed and engaged with stakeholders in special meetings, and have appointed a chief transparency officer in the Office of the United States Trade Representative (USTR). Nonetheless, concerns have been raised about limited access to negotiation texts. In the case of the TPP, the 12 prospective parties did not release the full draft text until November 2015, after more than five years of negotiations. According to its critics, by the time the parties came to sign the final agreement, in February 2016, it was almost impossible to change any of the text. Parts of the draft agreement had, however, been leaked over the previous years by groups such as WikiLeaks.

While increased transparency does not automatically lead to better outcomes, engagement with stakeholders may help to ease public concerns, and more varied input associated with wider engagement can help to shape better policies.

In the case of the TTIP negotiations, not only critics of the agreement but also supporters have called for greater transparency. The EU negotiators have addressed these concerns by increasing access to negotiation texts and engaging with the public to a much greater extent than their US counterparts.³⁴ While increased transparency does not automatically lead to better outcomes, engagement with stakeholders may help to ease public concerns, and more varied input associated with wider engagement can help to shape better policies.

Another contentious point in the polarized debates over TPP and TTIP has been the provisions regarding investor–state dispute settlement (ISDS), whereby foreign investors are able to bring claims against a government before an international tribunal. Critics, including Pascal Lamy,

³⁴ The European Commission has made efforts to increase transparency by making the EU's negotiating positions and textual proposals publicly available, by providing members of the European Parliament access to the TTIP texts and by setting up an advisory group on TTIP, whose 16 members (including representatives from business and civil society) have access to the negotiating texts.

a former EU trade commissioner and head of the WTO, have stated that provisions for ISDS are not necessary in a trade agreement between the US and the EU as these are advanced economies with well-established legal systems.³⁵

While the EU launched a public consultation on ISDS in TTIP, and has since put forward proposals for a permanent investment court, US negotiators have so far resisted the EU's initiatives in this area. Although the opposition to ISDS is more pronounced in Europe, civil society organizations in the US have also called on the government to exclude it from trade agreements.³⁶ ISDS has benefits and drawbacks, but the controversy has become very emotionally charged rather than being based on facts. While the US and the EU have a shared interest in striking a balance between the various interests and concerns, reforming the arbitration system for global investment protection will progress only slowly. A critical hurdle is getting the majority of countries around the world on board, which will be a complex process because the current system of ISDS is a fragmented regime of thousands of bilateral and international investment and trade treaties.³⁷ Moreover, balancing the interests of various stakeholders – ranging from industry to consumers and workers – will be a challenging task.

³⁵ Bermingham, F. (2014), 'TTIP: Italy and EU Commissioner Lobby for Negotiation Mandate to be Made Public', *International Business Times*, 26 August 2014, <http://www.ibtimes.co.uk/ttip-italy-eu-commissioner-demand-negotiation-mandate-be-made-public-1462593> (accessed 16 Jun. 2017).

³⁶ See for example calls by the Transatlantic Consumer Dialogue (TACD), which includes US groups such as Public Citizen, Consumer Federation of America or the Federation of State Public Interest Research Groups. Transatlantic Consumer Dialogue (2013), 'Resolution on Investor-State Dispute Resolution in the Transatlantic Trade and Investment Partnership', <http://test.tacd.org/wp-content/uploads/2014/01/TACD-TTIP-Resolution-on-Investor-State-Dispute-Resolution-in-the-Transatlantic-Trade-and-Investment-Partnership.pdf> (accessed 16 Jun. 2017).

³⁷ Zhan, J. X. (2016), 'Overview of the current international debate on reform of investment dispute settlement', Geneva: United Nations Conference on Trade and Development, <http://investmentpolicyhub.unctad.org/Upload/Documents/UNCTAD%20James%20Zhan%20expert%20meeting%2013%20Dec%202016.pdf> (accessed 16 Jun. 2017).

4. How Is US Trade Policy Shaping Up Under President Trump?

While trade policy under the Trump administration is still in its early stages of evolution, and its eventual shape cannot be predicted with total certainty, there are already pointers that give a good sense of the direction it will take. Trade – unlike many other policy areas – featured heavily in Trump’s presidential election campaign, and while there is the question of how far his rhetoric may translate into policy actions, Trump’s extensive commentary on trade offers insights into his thinking. The now president has, moreover, been fairly consistent in his publicly expressed views on trade since the 1980s. With key appointments on trade in place, the 2017 USTR trade policy agenda published, and some initial actions taken, the indicators of the likely priorities of the administration are coming into focus. In addition, there are domestic and international legal, political and economic constraints that will further narrow the likely path for Trump’s policy on trade.

Domestic constraints

The role of Congress

Although the constitution gives the president the authority to negotiate treaties and international agreements (with the consent from the Senate), Congress has the power to regulate foreign trade and thus plays a key role in trade policy.³⁸

In terms of striking new trade agreements, Trade Promotion Authority (TPA) – a legislative process enacted by Congress – allows the executive to negotiate based on congressional guidelines.³⁹ TPA thus involves a specific delegation of power for a limited time. Once the president (or usually the USTR) has successfully negotiated an agreement, Congress considers legislation to approve and implement it under expedited legislative procedures, with a simple up or down vote with no amendments. The most recent Trade Promotion Authority Act was signed into law in 2015, and can be used by the Trump administration until 1 July 2018 (with a possible extension until 1 July 2021).

If Trump wants to restrict trade, however, the constraining power of Congress is much more limited. Numerous statutes enacted since the Second World War give the president the power to impose tariffs and quotas on imports, for instance: to strengthen national security; to deal with a large and serious balance-of-payments deficit; or to retaliate if a foreign country denies the US its rights under a free-trade agreement or ‘carries out practices that are unjustifiable, unreasonable, or discriminatory’.⁴⁰ This would allow Trump to implement some of his campaign pledges without approval from Congress; and, indeed, President Trump has already started to invoke some of these statutes.

³⁸ See Article II, section 2, and Article I, section 8 of the US constitution.

³⁹ TPA is not needed for the president to strike new trade deals, but helps in agreeing and fast-tracking them.

⁴⁰ Hufbauer, G. C. (2016), ‘Could a President Trump Shackle Imports?’, in Noland, M., Hufbauer, G. C., Robinson, S. and Moran, T. (2016), *Assessing Trade Agendas in the US Presidential Campaign*, Washington, DC: Peterson Institute for International Economics, <https://piie.com/system/files/documents/piieb16-6.pdf> (accessed 16 Jun. 2017).

It is generally believed that the president does not need congressional consent to withdraw the US from a free-trade agreement.⁴¹ For example, subject to six months' written notification to the other parties, Trump could terminate NAFTA. This could be the option taken if the existing agreement cannot be renegotiated to the satisfaction of the administration. However, any process of renegotiating a trade agreement – currently under way in the case of NAFTA – has to involve Congress.

Domestic political opposition

Given the current Republican majorities in both the Senate and the House of Representatives, President Trump should in theory find it easier to get congressional support for his trade policy than did President Obama in his final years in office. The balance of control could change after the mid-term elections in 2018, but even before then political divisions within the Republican Party could lead to Trump's trade agenda being challenged in Congress.

Trump's antipathy to trade exposes a split within the Republican Party, which has – in line with its pro-business attitude – largely been committed to promoting a free-trade agenda since the end of the Second World War. Notably among the leading Republicans in Congress, House Speaker Paul Ryan and Senate Majority Leader Mitch McConnell are free-traders, and were instrumental in securing Republican support for the 2015 Trade Promotion Authority Act. Without their support for TPA – which helped to pave the way for the conclusion of the TPP – President Obama would not have been able to advance his trade agenda, particularly because his fellow Democrats largely voted against the measure. Congressional Republicans vehemently opposed most of Obama's initiatives, but Ryan and McConnell's willingness to sidestep partisanship in order to advance trade liberalization suggests that they may not automatically help Trump down a protectionist path.

Trump's antipathy to trade exposes a split within the Republican Party, which has – in line with its pro-business attitude – largely been committed to promoting a free-trade agenda since the end of the Second World War.

Although Trump may try to tap into the anti-trade sentiment within his voting base and use this to pressure Republicans in Congress to fall in line, with all seats in the House of Representatives and 33 of the 100 Senate seats up for renewal in 2018, Republicans will likely prioritize constituency interests over those of the president. For instance, it was reported in July 2017 that a group of Republicans first elected to the House in 2016 had sent a letter to the USTR, Robert Lighthizer, expressing their concern about the potential damage to US businesses, farmers and workers of Trump's trade policies – particularly withdrawal from NAFTA. The 32 signatories, 27 of whom represent parts of the US that voted for Trump in the presidential election, warned that the US risks falling behind as other countries negotiate trade agreements and expand access for their own industries.⁴²

In anticipation of the 2018 mid-term elections, Senate Democrats have unveiled trade proposals as part of their 'Better Deal' agenda. The 'Better Deal for Trade and Jobs' emphasizes that US trade policies 'are not working for many working families and small businesses', and pledges to 'crack down on foreign

⁴¹ However, some legal experts maintain that Congress has more power over withdrawal from US trade agreements than is recognized. See, for instance, Trachtman, J. (2017), 'Trump can't withdraw from NAFTA without a 'yes' from Congress', *The Hill*, 16 August 2017, <http://thehill.com/blogs/pundits-blog/international-affairs/346744-trump-cant-withdraw-from-nafta-without-a-yes-from> (accessed 31 Aug. 2017).

⁴² Behsudi, A. (2017), 'House Republican freshmen show their NAFTA love', *Politico*, 27 July 2017, <http://www.politico.com/tipsheets/morning-trade/2017/07/27/house-republican-freshmen-show-their-nafta-love-221562> (accessed 31 Aug. 2017).

countries that manipulate trade rules and penalize corporations that outsource American jobs⁴³. Thus, at least in terms of rhetoric, Trump has more in common on trade with congressional Democrats than with Republicans. But while this means that Democrats could align with the president on trade, the wide differences in other policy areas mean that such cooperation is unlikely to materialize.

The role of the cabinet and agencies

How Trump's trade policy will play out will also depend on who within the cabinet and the wider administration will have his ear, and how well the various agencies involved in trade policy work together.

Trump's appointments for key positions on trade matters seem to be cut from the same cloth. USTR Robert Lighthizer, Commerce Secretary Wilbur Ross and Peter Navarro, director of the newly established Office of Trade and Manufacturing Policy (OTMP), all regard the US trade deficit as a major problem, hold protectionist attitudes and view China's trade practices with particular concern.

Nonetheless, this unity could be undermined by rivalries stemming from duplication and overlap of interests as well as competing policy processes.⁴⁴ Making trade policy has always involved numerous agencies, with the Office of the USTR at the heart of the process, and President Trump has added further complexity with the insertion of the OTMP.⁴⁵ Its defined responsibilities – *inter alia* to 'advise the President on innovative strategies and promote trade policies consistent with the President's stated goals', and 'serve as a liaison between the White House and the Department of Commerce'⁴⁶ – could lead to a turf war with the Office of the USTR, which is responsible 'for developing and coordinating U.S. international trade, commodity, and direct investment policy'.⁴⁷ However, the limited staff of the OTMP, as well as recent reports that it is now housed within the National Economic Council, suggest that its function will be more restricted. In addition, Trump has expanded the role that the commerce secretary will have in trade policy, including being a key player in the talks with Mexico and Canada on renegotiating NAFTA.⁴⁸

Congress may, moreover, become stuck in the middle of this struggle for dominance between the Office of the USTR, the Department of Commerce and the OTMP. Expertise for negotiating trade agreements sits largely within the Office of the USTR, and the House Ways and Means Committee and the Senate Finance Committee (the congressional entities with jurisdiction on trade policy) will likely insist that the negotiating function remains with the USTR so that these two committees can continue to exercise oversight. The Department of Commerce is accountable to different committees, and the OTMP is not subject to regular congressional oversight.

⁴³ US Senate Democrats (2017), 'A Better Deal', <https://www.democrats.senate.gov/abetterdeal/raising-wages-and-incomes> (accessed 30 Oct. 2017).

⁴⁴ Schneider-Petsinger, M. (2017), 'Wilbur Ross Is in the Driver's Seat on U.S. Trade Policy – For Now', Real Clear World, 1 March 2017, http://www.realclearworld.com/articles/2017/03/01/wilbur_ross_is_in_the_drivers_seat_on_us_trade_policy_-_for_now_112235.html (accessed 16 Jun. 2017).

⁴⁵ The OTMP was established within the White House in April 2017. It replaces the White House National Trade Council, the creation of which was only announced in December 2016. In September 2017 the OTMP was reportedly folded into the National Economic Council. See Restuccia, A., Toosi, N. and Palmeri, T. (2017), 'Kelly folds Navarro's trade shop into National Economic Council', Politico, 27 September 2017, <http://www.politico.com/story/2017/09/27/peter-navarro-trade-office-national-economic-council-243217> (accessed 29 Sept. 2017).

⁴⁶ The White House (2017), 'Presidential Executive Order on Establishment of Office of Trade and Manufacturing Policy', 29 April 2017, <https://www.whitehouse.gov/the-press-office/2017/05/01/presidential-executive-order-establishment-office-trade-and> (accessed 30 Oct. 2017).

⁴⁷ Office of the United States Trade Representative, 'Mission of the USTR', <https://ustr.gov/about-us/about-ustr> (accessed 16 Jun. 2017).

⁴⁸ Inside U.S. Trade, World Trade Online (2017), 'Trump: Ross to lead accelerated NAFTA talks', 2 February 2017, <https://insidetradetalks.com/trade/trump-ross-lead-accelerated-nafta-talks> (accessed 16 Jun. 2017).

Another potential contributor to an internal clash over trade is the faction of committed free-traders in the cabinet – most prominently Vice-President Mike Pence and Secretary of State Rex Tillerson. While they are not the central players when it comes to trade policy, they could influence – or seek to influence – objectives in this area.

Cabinet members will also have to work with – or potentially against – a close circle of advisers in the White House. Gary Cohn, director of the National Economic Council, has notably emerged as an important figure. Jared Kushner, Trump's son-in-law and senior adviser, and Jason Greenblatt, Special Representative for International Negotiations, were initially regarded as having a say on trade policy as well, but have since focused on other areas.

So far, the hardliners on trade issues have been sidelined. An executive order to withdraw from NAFTA – which had reportedly been drafted by OTMP head Peter Navarro and the then White House chief strategist Steve Bannon – was in the end not signed by Trump after more moderate trade voices intervened.⁴⁹ Bannon's departure from the White House apparently tips the balance in favour of the globalists on Trump's trade team. Moreover, with the OTMP now reportedly part of the National Economic Council, the trade nationalist Navarro would have to report to globalist Cohn – a sign that the former's influence is being further reduced.

Commerce Secretary Ross was initially in the driver's seat on US trade policy in the early months of the Trump administration, but with the confirmation of Robert Lighthizer as USTR in May 2017 the primary official in charge of trade policy is now in place. However, key appointments in the Office of the USTR (including the deputy ranks) have yet to be confirmed, and this will likely slow the pace of action on trade.

Economic considerations

President Trump has promised to jump-start the US economy and return it to 4 per cent annual growth. He has also pledged to create 25 million new jobs over the next decade.⁵⁰ Some of his proposals, such as tax reform and cuts, or infrastructure spending, could stimulate the economy if they are moved forward, although probably not to the degree vaunted by the president.

According to many of those who are sceptical of Trump's ambitions for the US economy, his protectionist trade proposals are likely to act as a drag on growth by raising the cost of imports, discouraging exports, hampering innovation and creating uncertainty for businesses. It is highly probable that businesses and citizens in sectors of the economy and in regions of the US that will be most severely affected will speak out against protectionism in US trade policy.

The administration will need to achieve a careful balance between its ambitions for growth and the economic implications of a protectionist agenda.

The administration will thus need to achieve a careful balance between its ambitions for growth and the economic implications of a protectionist agenda, as well as the often competing demands of various stakeholders.

⁴⁹ Cassidy, J. (2017), 'Trump's NAFTA Reversal Confirms the Globalists Are in Charge—For Now', *The New Yorker*, 27 April 2017, <http://www.newyorker.com/news/john-cassidy/trumps-nafta-reversal-confirms-the-globalists-are-in-charge-for-now> (accessed 30 Oct. 2017).

⁵⁰ The White House (2017), 'Bringing Back Jobs And Growth', <https://www.whitehouse.gov/bringing-back-jobs-and-growth> (accessed 16 Jun. 2017).

Voter preferences

One of the critical factors influencing Trump's success in the 2016 presidential election was his ability to tap into the frustrations of voters who felt left behind by globalization and trade. He has promised to address these voters' grievances, and their continued support will largely be contingent on whether he is perceived as delivering on these promises. But it is very unlikely that Trump's trade policy will be able to meet the needs and expectations of this constituency in full. Despite his campaign pledges to reduce the trade deficit, rip up bad deals and get tough on countries that do not play by the rules, these measures will not in practice bring many manufacturing jobs back to the US. Moreover, many of his campaign proposals for trade policy, such as raising tariffs, would primarily hurt a large number of the disenchanted constituencies who brought him to power. Those on modest incomes spend a much larger proportion of their pay on goods that are imported, such as footwear and clothing, and higher tariffs would mean that the prices of these goods would increase for consumers.

Trump's trade policy – even though it was a central part of his campaign – cannot thus be at the heart of the solutions to accommodate the grievances of these same voters. Other policies regarding healthcare, tax reform and infrastructure will be more central. In practice, if not in rhetoric, therefore, if the administration is to move these initiatives forward, the trade agenda may need to be played down.

Policy priorities and interactions

Repealing and replacing President Obama's Affordable Care Act, tackling tax reform and launching a \$1 trillion infrastructure plan have emerged as the key legislative priorities for Republicans.⁵¹ This ambitious agenda will require significant efforts to build a party-wide consensus among Republicans in Congress, as they have latterly shown themselves to be not all on the same page when it comes to reforming healthcare, and will not all support the ballooning deficit and debt trajectory that the tax and infrastructure plans could give rise to. Moreover, progress towards these objectives has been slow in a Congress preoccupied by the ongoing controversies and investigations concerning a possible collaboration between the Trump campaign and Russia. In this context, it is unlikely that President Trump will try to implement some of his more provocative trade policy objectives; these would risk a further rift within the Republican Party and undermine the advancement of his other policy priorities.

Consideration of how various policy plans interact may also serve to constrain Trump's trade agenda. For instance, if the US was to withdraw from NAFTA, the Mexican economy would likely enter a severe downturn, thus increasing the incentives for Mexicans to migrate to the US. This would create a situation at odds with Trump's goal of reducing immigration. And his economic stimulus plan is widely considered as an initiative that would cause the dollar to strengthen. This would make US exports more expensive and imports cheaper, thus frustrating Trump's stated objective of narrowing the trade deficit.

In short, the Trump administration will have to weigh its policy priorities and their intended and unintended consequences, which points to the probability that a more moderate trade policy agenda will emerge.

⁵¹ Wong, S. and Bolton, A. (2017), 'Ryan maps out GOP timeline for ObamaCare, tax reform', *The Hill*, 25 January 2017, <http://thehill.com/homenews/house/316156-ryan-maps-out-gop-time-line-for-obamacare-tax-reform> (accessed 16 Jun. 2017).

International constraints

There are certain international constraints that will temper the president's ability and willingness to pursue his trade promises. As a member of the WTO, the US is guided in trade policy by the organization's rules and decisions. Thus, for instance, the imposition of across-the-board and/or unilateral tariffs on imports from Mexico or China would be inconsistent with WTO rules. And if the Trump administration was to impose tariffs, other countries could retaliate. China has already identified US companies and industries that it would target – including Boeing, Apple and soybean producers – in a tit-for-tat approach.⁵² Although increasingly unlikely at present, whether a trade war between the US and China does eventually materialize will depend not only on US actions, but also on China's reaction.

While 'China-bashing' was a core theme of Trump's presidential campaign, since taking office he has adopted a much more measured stance, in part because of national security considerations. Notably, for example, the president has latterly stepped away from his campaign pledge to name China a currency manipulator on 'day one' of his administration, aiming instead to get Beijing's support in dealing with the growing nuclear threat from North Korea.⁵³

Although President Trump has the authority to withdraw the US from NAFTA, a renegotiation of the agreement requires the willingness of Mexico and Canada to come back to – and remain at – the table. So far, all sides are ready to engage, with negotiations having got under way in August 2017. With a general election due in Mexico in July 2018, its government has been keen to wrap up the NAFTA renegotiation process before the end of 2017,⁵⁴ although – as noted below – progress hitherto suggests that this ambition is now unrealistic. Despite all the focus on the Trump administration's threats to scrap NAFTA, Mexico and Canada could also walk away from the negotiating table if their own red lines are crossed. Mexican and Canadian officials are also exploring areas of mutual interest on which they can collaborate to strengthen their position *vis-à-vis* the US.⁵⁵

Trump's trade plans and actions so far have raised questions about the US's reliability as a partner and international leader in the trade arena, which could prompt its rivals and allies alike to assume a greater role themselves. In the wake of the US withdrawal from the TPP, China has been only too willing, via initiatives such as the Regional Comprehensive Economic Partnership (RCEP), to move into the void left in the Asia-Pacific region. The EU has also signalled that it will work to advance trade talks around the globe, including with TPP countries.⁵⁶ These efforts are already bearing fruit, with the EU and Japan having reached an agreement in principle on the main elements of a bilateral trade agreement in July 2017.⁵⁷ In this shifting international context, the Trump administration may come to realize that the US risks falling behind as other countries take a more prominent role in advancing trade liberalization.

⁵² Phillips, T. (2016), 'China threatens to cut sales of iPhones and US cars if 'naïve' Trump pursues trade war', *Guardian*, 14 November 2016, <https://www.theguardian.com/world/2016/nov/14/china-threatens-to-cut-sales-of-iphones-and-us-cars-if-naive-trump-pursues-trade-war> (accessed 16 Jun. 2017).

⁵³ Trump, D. J. (@realDonaldTrump) (2017), 'Why would I call China a currency manipulator when they are working with us on the North Korean problem? We will see what happens!', tweet, 16 April 2017, <https://twitter.com/realdonaldtrump/status/853583417916755968?lang=en> (accessed 16 Jun. 2017).

⁵⁴ Gillespie, P. (2017), 'Mexico: Let's get NAFTA done now', CNN, 7 April 2017, <http://money.cnn.com/2017/04/07/news/economy/mexico-nafta-economic-minister/index.html> (accessed 16 Jun. 2017).

⁵⁵ Ljunggren, D. (2017), 'Canada, Mexico to discuss how to handle NAFTA talks: sources', Reuters, 18 July 2017, <https://www.reuters.com/article/us-usa-trade-nafta-canada-idUSKBN1A321V> (accessed 18 Jul. 2017).

⁵⁶ International Centre for Trade and Sustainable Development (2017), 'EU's Malmström Pushes for Deeper Trade Ties in Asia-Pacific Region', 9 March 2017, <https://www.ictsd.org/bridges-news/bridges/news/eus-malmstrom-pushes-for-deeper-trade-ties-in-asia-pacific-region> (accessed 16 Jun. 2017).

⁵⁷ European Commission (2017), 'EU and Japan reach agreement in principle on Economic Partnership Agreement', 6 July 2017, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1686> (accessed 18 Jul. 2017).

Even if President Trump is less than willing to engage in international forums such as the G20, he will still have to work with a G20 trade consensus that has traditionally resisted protectionism. US dissent meant that G20 finance ministers struggled, at their meeting in March 2017, over the wording of the customary statement opposing all forms of protectionism. By the time of the G20 leaders' summit in Hamburg in July, however, the US position had softened to some degree,⁵⁸ thus easing the path to agreement on a common statement. The leaders at the G20 summit in Hamburg recommitted themselves to 'keep markets open' and 'continue to fight protectionism'.⁵⁹ All the same, in an apparent nod to the concerns of the Trump administration, compromise language acknowledged the 'importance of reciprocal and mutually advantageous trade and investment frameworks', as well as the role of legitimate trade-defence instruments in tackling unfair practices.⁶⁰ On balance, language on trade at the outcome of the Hamburg summit was remarkably robust.

A likely path for US trade policy

While it is not yet possible to pinpoint the precise direction – in particular the degree of retreat from free trade – that the Trump administration will take in its trade policy, it is already clear that the US will no longer be taking a leadership role in pressing for new free-trade agreements and multilateral rules that set standards for a global system. It is also more than likely, given the constraints set out above, that Trump's trade policy will be less radical in its execution than was signalled in his campaign-trail rhetoric.

Indeed, during Trump's early months in office, the sole definitive action on trade was the decision to withdraw from the TPP.⁶¹ He did not, as promised during the campaign, designate China a currency manipulator on 'day one'; nor did he take any action to impose across-the-board tariffs on imports from China and Mexico. He signed a number of trade-related executive orders, mostly to commission the study of the source and consequences of perceived problems such as the US's bilateral trade deficits or violations of trade agreements by partners abroad, but the deadlines for reports have so far been missed. The NAFTA renegotiation is now notably under way. But it remains to be seen how different US trade policy will be as a result of these initiatives.

The 2017 USTR trade policy agenda sets out the principles that will drive US actions. The overarching objective is 'to expand trade in a way that is freer and fairer for all Americans'.⁶² The trade agenda is directed at, *inter alia*, increasing economic growth, creating jobs, and promoting reciprocity with trading partners. Reducing the trade deficit, enforcing existing agreements and tackling perceived unfair practices will be central elements of the administration's trade actions. Thus, while the Trump administration is not against free trade *per se*, it will follow a more protectionist path than its recent predecessors.

⁵⁸ Delcker, J. and Herszenhorn, D. M. (2017), 'Angela Merkel steers G20 leaders to compromise on trade', Politico, 10 July 2017, <http://www.politico.eu/article/g20-summit-in-hamburg-concludes-with-compromise-on-trade-and-dissent-on-climate/> (accessed 18 Jul. 2017).

⁵⁹ G20 (2017), *G20 Leaders' Declaration – Shaping an interconnected world*, 7–8 July 2017, https://www.g20.org/Content/EN/_Anlagen/G20/G20-leaders-declaration.pdf?__blob=publicationFile&v=11 (accessed 18 Jul. 2017).

⁶⁰ *Ibid.*

⁶¹ Bown, C. P. (2017), 'Introduction', in Bown, C. P. (ed.) (2017), *Economics and Policy in the Age of Trump*, London: Centre for Economic Policy Research, <http://voxeu.org/content/economics-and-policy-age-trump> (accessed 16 Jun. 2017).

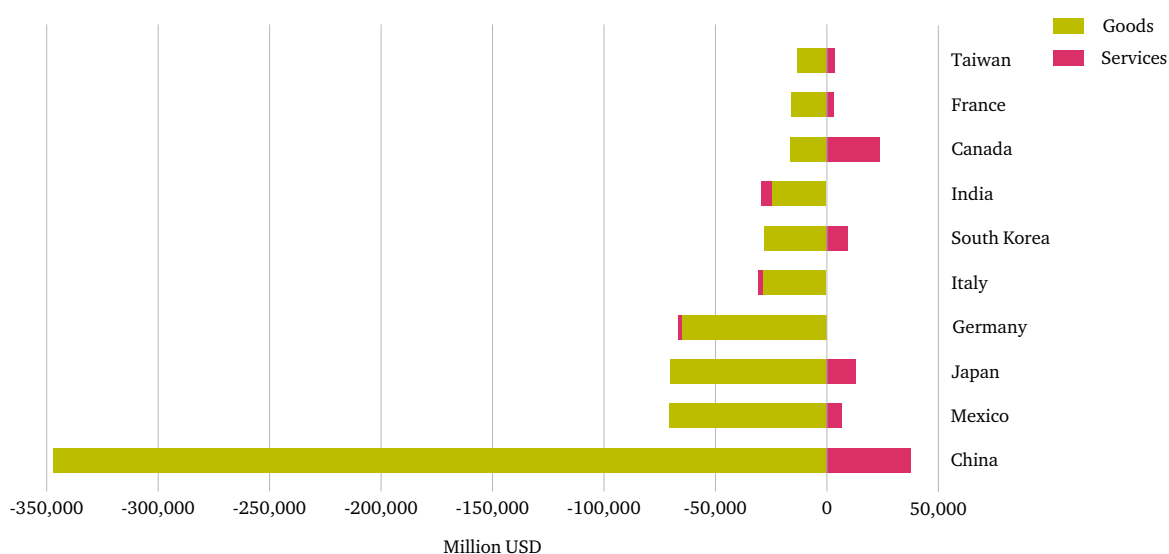
⁶² Office of the United States Trade Representative (2017), *2017 Trade Policy Agenda and 2016 Annual Report of the President of the United States on the Trade Agreements Program*, Washington, DC: Office of the United States Trade Representative, <https://ustr.gov/sites/default/files/files/reports/2017/AnnualReport/AnnualReport2017.pdf> (accessed 16 Jun. 2017).

Focus on the US trade deficit

When the Trump administration bemoans the US trade deficit – the world’s largest over four decades⁶³ – it is almost exclusively focused on trade in goods. The trade deficit in goods and services stood at \$505 billion in 2016, but whereas the trade deficit in goods amounted to \$753 billion, this was partially offset by a surplus in services.⁶⁴

The countries with which the US runs the largest merchandise trade deficits are under scrutiny: an executive order in March 2017 initiated a review of the US trade deficit with key countries,⁶⁵ among them China, Germany, Mexico and Japan (see Figure 2). China and Mexico were singled out by Trump on the campaign trail; and since his inauguration Germany and Japan have also been targeted for alleged unfair trade practices that contribute to their large merchandise trade surpluses with the US. Peter Navarro, now head of the OTMP, has accused Germany of exploiting the euro for its own trade gains,⁶⁶ while President Trump has taken to Twitter to denounce Germany’s trade surplus.⁶⁷ Trump has also held Japan responsible for hampering automobile imports from the US through unfair trade practices.⁶⁸ Trade issues will always be on the agenda during meetings between the Trump administration and representatives of the countries concerned, and could become a major sticking point in bilateral relationships if progress is not made to the satisfaction of the former.

Figure 2: US balance of trade in goods and services with key countries (2016)



Source: US Census Bureau and US Bureau of Economic Analysis (2017), ‘U.S. International Trade in Goods and Services, May 2017, Exhibits 20, 20a and 20b’, https://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf (accessed 21 Jul. 2017).

⁶³ World Bank (2017), ‘World Development Indicators – Net trade in goods and services (BoP, current US\$)’, <http://databank.worldbank.org/data/reports.aspx?source=2&series=BN.GSR.GNFS.CD&country=> (accessed 29 Sept. 2017).

⁶⁴ US Census Bureau, Economic Indicators Division (2017), ‘U.S. Trade in Goods and Services – Balance of Payments (BOP) Basis’, <https://www.census.gov/foreign-trade/statistics/historical/gands.pdf> (accessed 16 Jun. 2017).

⁶⁵ The White House (2017), ‘Presidential Executive Order Regarding the Omnibus Report on Significant Trade Deficits’, 31 March 2017, <https://www.whitehouse.gov/the-press-office/2017/03/31/presidential-executive-order-regarding-omnibus-report-significant-trade> (accessed 16 Jun. 2017). While this report was due by 29 June 2017, it has not been released yet.

⁶⁶ Donnan, S. (2017), ‘Trump’s top trade adviser accuses Germany of currency exploitation’, *Financial Times*, 31 January 2017, <https://www.ft.com/content/57f104d2-e742-11e6-893c-082c54a7f539> (accessed 16 Jun. 2017).

⁶⁷ Trump, D. J. (@realDonaldTrump) (2017), ‘We have a MASSIVE trade deficit with Germany, plus they pay FAR LESS than they should on NATO & military. Very bad for U.S. This will change’, tweet, 30 May 2017, <https://twitter.com/realdonaldtrump/status/869503804307275776?lang=en> (accessed 16 Jun. 2017).

⁶⁸ Reynolds, I. and Hagiwara, Y. (2017), ‘Abe Has a Trump Problem: How to Get Japan to Buy U.S. Cars’, Bloomberg, 25 January 2017, <https://www.bloomberg.com/politics/articles/2017-01-24/abe-has-a-trump-problem-how-to-get-japan-to-buy-more-u-s-cars> (accessed 16 Jun. 2017).

A US–Chinese trade war has been avoided thus far. At their meeting held at Mar-a-Lago, Florida, in April 2017, Presidents Trump and Xi Jinping agreed to develop a 100-day trade action plan,⁶⁹ but the dialogue had produced few concrete results by the time the deadline passed in mid-July. The US and China did reach a deal in May on trade in certain agricultural products, financial services and energy.⁷⁰ Since then, however, little further progress has been made; and ongoing differences over China’s excess capacity in the steel sector and cheap imports that allegedly hurt the American steel industry suggest that this and other tensions over trade will continue to loom large in the bilateral economic relationship.⁷¹

The US maintains a free-trade agreement with only two of the 10 countries with which it has the largest bilateral merchandise trade deficits (Mexico and South Korea). The bilateral deficits result from structural factors, and are magnified by supply chains and the ways in which trade is measured.

The Trump administration’s focus on bilateral trade deficits is misguided. While the total US trade deficit matters, it is largely due to macroeconomic forces (driven by savings and investment) and not trade policy.⁷² The US maintains a free-trade agreement with only two of the 10 countries with which it has the largest bilateral merchandise trade deficits (Mexico and South Korea). The bilateral deficits result from structural factors, and are magnified by supply chains and the ways in which trade is measured.⁷³

In this context, it is unlikely that the emphasis on narrowing the trade deficit, especially through bilateral efforts, will produce the desired outcome. More probably, the deficit will continue to widen (also given a projected stronger dollar if the administration’s planned fiscal policies are implemented). It can be expected, therefore, that the US will pursue a few high-profile actions that seemingly address the trade balance (such as current initiatives to impose tariffs on steel imports) in an effort to distract attention from a deficit that is widening overall.

Modification of NAFTA and other trade deals

Instead of withdrawing the US from existing free-trade agreements, the Trump administration is more likely to renegotiate them if US goals are perceived as not being met. And given Trump’s focus on NAFTA during the election campaign, the agreement with Mexico and Canada – in force since 1994 – is firmly at the top of the list for renegotiation.

Calls for the renegotiation of NAFTA – including by Barack Obama and Hillary Clinton during the 2008 election campaign – are nothing new. President Obama in a sense delivered on this undertaking through the conclusion of the TPP negotiations, which would have updated many parts of the US’s trade relationship with its NAFTA partners. With the NAFTA renegotiations now under way, if done right, the US once again has the opportunity to upgrade its trade relationship with Mexico and Canada.

⁶⁹ Reuters (2017), ‘Trump, Xi agree to 100-day plan to discuss trade issues’, Reuters, 7 April 2017, <https://www.reuters.com/article/us-usa-china-plan/trump-xi-agree-to-100-day-plan-to-discuss-trade-issues-idUSKBN17932I> (accessed 27 Sept. 2017).

⁷⁰ See US Department of Commerce, Office of Public Affairs (2017), ‘Joint Release: Initial Results of the 100-Day Action Plan of the U.S. – China Comprehensive Economic Dialogue’, 11 May 2017, <https://www.commerce.gov/news/press-releases/2017/05/joint-release-initial-results-100-day-action-plan-us-china-comprehensive> (accessed 16 Jun. 2017).

⁷¹ Fleming, S., Donnan, S. and Sevastopulo, D. (2017), ‘US-China trade talks produce few concrete results’, *Financial Times*, 20 July 2017, <https://www.ft.com/content/9c689988-6cd8-11e7-bfeb-33fe0c5b7eaa?mhq5j=e3> (accessed 20 Jul. 2017).

⁷² Freund, C. (2017), ‘The Trump administration’s misguided focus on trade barriers’, 7 June 2017, Centre for Economic Policy Research, <http://voxeu.org/article/trump-administrations-misguided-focus-trade-barriers> (accessed 18 Jul. 2017).

⁷³ *Ibid.*

In May 2017 the Trump administration formally notified Congress of its intention to renegotiate NAFTA, thereby initiating a 90-day consultation period.⁷⁴ In July it provided a summary of objectives for the negotiations.⁷⁵ While some goals (such as reducing the US merchandise trade deficit with Mexico and Canada) are notable hallmarks of the Trump administration, others (such as measures to upgrade labour and environmental standards, address the regulation of state-owned enterprises, and incorporate governance rules for digital trade and cross-border data flows) echo provisions of the TPP.⁷⁶

For the most part, the US objectives for the NAFTA renegotiation are rather vague. As currently set out, some may be agreed relatively easily, while others will be far more contentious. In particular, eliminating the dispute settlement section dealing with anti-dumping and countervailing duty matters (referred to as Chapter 19), focusing on the bilateral trade balance, and reducing or eliminating barriers for US agricultural exports will likely become sticking points. Rules of origin in the auto industry are also poised to be a highly charged issue. Reported US proposals to include a ‘sunset clause’, which would allow NAFTA to be terminated after five years unless all parties agree to renew it, could further heighten the tension.⁷⁷

The negotiations, which began in August 2017, have already exposed some of these differences between the three parties. Despite the common ambition to conclude the process quickly – especially Mexico’s stated aim to wrap up well before its elections due in July 2018 – it seems more likely that the renegotiation will be drawn out beyond the US mid-term elections in November that year. In light of stalled progress during the first four negotiating rounds, the talks are indeed already delayed and have been extended into the first quarter of 2018.⁷⁸

Mexico and Canada seem willing thus far to agree to modest changes to NAFTA, but it is unlikely that they will accept the introduction of new trade barriers. The US, for its part, may be prepared to withdraw from the agreement if it cannot secure a favourable renegotiation, but this seems unlikely in the face of lobbying against such a move by businesses and members of Congress in potentially adversely affected US states.

Although the NAFTA renegotiation will be the priority for the Trump administration in terms of revising existing trade deals, the US–Korea Free Trade Agreement (KORUS) will likely be next on the list. The US and South Korea held special meetings of the KORUS Joint Committee in August and October 2017 to consider ‘needed amendments’ to the current agreement.⁷⁹ A key point of concern for the US is that its merchandise trade deficit with South Korea has almost doubled since KORUS came into force in 2012, and the Trump administration wants to remove barriers to US market access.

⁷⁴ Office of the United States Trade Representative (2017), ‘USTR: Trump Administration Announces Intent to Renegotiate the North American Free Trade Agreement’, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/may/ustr-trump-administration-announces> (accessed 27 Sept. 2017).

⁷⁵ Office of the United States Trade Representative (2017), ‘USTR Releases NAFTA Negotiating Objectives’, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/july/ustr-releases-nafta-negotiating> (accessed 27 Sept. 2017).

⁷⁶ Swanson, A. (2017), ‘Trump administration unveils goals in renegotiating NAFTA’, *Washington Post*, 17 July 2017, https://www.washingtonpost.com/news/wonk/wp/2017/07/17/trump-administration-outlines-goals-for-nafta-rewrite/?utm_term=.c739380746db (accessed 18 Jul. 2017).

⁷⁷ Martin, E., Wingrove, J. and Mayeda, A. (2017), ‘U.S. Offers Proposal That Could Kill Nafta in 5 Years’, *Bloomberg*, 12 October 2017, <https://www.bloomberg.com/news/articles/2017-10-12/u-s-is-said-to-offer-proposal-that-could-kill-nafta-in-5-years> (accessed 15 Oct. 2017).

⁷⁸ Pramuk, J. (2017), ‘US is not moving to scrap NAFTA despite ‘challenges’ that are delaying talks’, *CNBC*, 17 October 2017, <https://www.cbc.com/2017/10/17/nafta-renegotiation-talks-will-go-into-next-year.html> (accessed 25 Oct. 2017).

⁷⁹ Office of the United States Trade Representative (2017), ‘USTR Lighthizer Statement on the Conclusion of the Second Special Session of the U.S.–Korea FTA Joint Committee’, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/october/ustr-lighthizer-statement> (accessed 15 Oct. 2017).

From ‘mega-regional’ to bilateral deals

The prospects for the TTIP and TiSA negotiations under the Trump administration are uncertain. Although Trump did not single these out on the campaign trail, and the 2017 USTR trade policy agenda states that the administration is ‘currently evaluating the status of the negotiations’,⁸⁰ they are unlikely to advance in the near future. To a large degree, this reflects the current administration’s stated preference for bilateral over mega-regional or multilateral trade agreements.

TTIP, as a bilateral arrangement between the US and the EU, would technically fit with this preference. Trump’s key advisers initially regarded it as, in Navarro’s words, ‘a multilateral deal in bilateral dress’,⁸¹ but have since come to the realization that negotiations must be conducted at EU level and not with individual member states.⁸² Even though Commerce Secretary Wilbur Ross has put the possibility of reviving trade negotiations with the EU back on the table, it is highly unlikely that this will happen anytime soon. EU Trade Commissioner Cecilia Malmström has publicly acknowledged that the negotiations will remain on hold for some time, and has also emphasized the EU’s need for time ‘to evaluate and reflect’.⁸³

Moving TTIP forward would require a substantial commitment of political capital from the US and the EU, but, given its other priorities, it does not seem that the Trump administration will commit time and effort to TTIP in the foreseeable future. And even if the negotiations are resumed, there will be substantial hurdles to overcome. In particular, given the president’s focus on ‘Buy American’, it is unlikely that his administration would be willing to give in to the EU’s demand on market access in government procurement.⁸⁴ The recognition and protection of geographic indications – another issue that emerged as a sticking point well before Trump’s election – could also be expected to resurface.

The TiSA negotiations, although close to completion by late 2016, are now on hold. There is some chance that the negotiations could progress, not least because the US maintains a trade surplus in services. However, given both the Trump administration’s focus on reducing the trade deficit in goods and curtailing imports of manufactures, and the complexity of the TiSA negotiations involving (currently) 23 parties, the prospect of an early revival appears slim.

The age of negotiating mega-regional trade deals seems over, but it remains to be seen whether the Trump administration will pursue any new trade negotiations.

The age of negotiating mega-regional trade deals seems over, but it remains to be seen whether the Trump administration will pursue any new trade negotiations at all. If it does, it is clear that these will be on a bilateral basis. Trump and his advisers see bilateral deals as easier and quicker to negotiate than regional or multilateral arrangements, and they consider that the US gets, in Wilbur Ross’s phrasing,

⁸⁰ Office of the United States Trade Representative (2017), *2017 Trade Policy Agenda and 2016 Annual Report of the President of the United States on the Trade Agreements Program*.

⁸¹ Donnan (2017), ‘Trump’s top trade adviser accuses Germany of currency exploitation’.

⁸² LaRocco, L. A. (2017), ‘Wilbur Ross says he’s ‘open to resuming’ talks on mega-trade deal with Europe’, CNBC, 30 May 2017, <https://www.cnbc.com/2017/05/30/exclusive-wilbur-ross-says-hes-open-to-resuming-ttip-negotiations.html> (accessed 16 Jun. 2017).

⁸³ Zalan, E. (2017), ‘US ‘open’ to new talks on free trade pact’, EUObserver, 31 May 2017, <https://euobserver.com/economic/138070> (accessed 16 Jun. 2017).

⁸⁴ See for example the ‘Buy American, Hire American’ Executive Order. The White House (2017), ‘Presidential Executive Order on Buy American and Hire American’, 18 April 2017, <https://www.whitehouse.gov/the-press-office/2017/04/18/presidential-executive-order-buy-american-and-hire-american> (accessed 16 Jun. 2017).

‘picked apart’, country by country, in multilateral negotiations.⁸⁵ In terms of potential new trade deals, the administration has expressed an interest in pursuing trade agreements with the UK and with Japan. There would be significant hurdles in both instances, however.

That the UK cannot formally begin negotiating trade matters while it remains a member of the EU precludes a quick bilateral deal for the Trump administration. Moreover, the terms of the post-Brexit arrangement between the UK and the EU will influence to what extent the former is able to set its own tariffs and determine regulations bilaterally. Until a UK–EU deal is finalized, US negotiators will not know how valuable access to the UK market is likely to be, making even informal talks difficult. Thus, negotiations for a discrete US–UK trade agreement may proceed only towards the end of the current presidential term. Some US officials even put the EU ahead of the UK in terms of striking a trade deal.⁸⁶

A potential US–Japan free-trade deal could therefore move to the front of the queue; and could in theory be completed quickly, using the TPP as a blueprint. But, rather than repurposing what was agreed in the TPP, the administration will likely push for additional concessions, particularly concerning better market access for US automobiles and agricultural products such as beef. Addressing the large trade deficit with Japan would likely be a focal point of the negotiations, further complicating talks. The prospects for a rapid deal are thus uncertain here too.

Aggressive use of trade remedies and tackling ‘unfair’ practices

Enforcement of existing trade agreements, as well as responding to perceived unfair trade practices (such as dumped or subsidized imports, theft of intellectual property rights, or currency manipulation), will be a major priority for the Trump administration. The 2017 USTR trade policy agenda emphasizes that the US will break down ‘unfair trade barriers in other markets that block U.S. exports’, while ensuring that all US trade laws are ‘strictly and effectively enforced’.⁸⁷

The US can take some unilateral actions under domestic law, and the Trump administration will likely make increased use of established trade remedies that are already frequently employed, including anti-dumping and countervailing duty laws, probably in a more aggressive fashion. According to recent practice, the Department of Commerce initiates an anti-dumping or countervailing duty investigation after a domestic interested party files a petition. More rarely, as happened mostly in the 1980s, investigation is also possible at the Commerce Secretary’s own initiative.⁸⁸ Wilbur Ross’s remarks during his confirmation hearing in January 2017 suggested that the Department of Commerce will self-initiate more investigations under the present administration.⁸⁹

The Trump administration will also be inclined to invoke – and to self-initiate investigations under – less commonly used US laws in order to take unilateral actions. Indeed, the administration has already done so three times. In April 2017 it self-initiated two separate investigations under Section 232 of the Trade Expansion Act of 1962, on the grounds that imports of steel and aluminium pose a threat

⁸⁵ CNBC (2016), ‘CNBC Transcript: Steven Mnuchin and Wilbur Ross Speak with CNBC’s “Squawk Box” Today’, 30 November 2016, <http://www.cnbc.com/2016/11/30/cnbc-transcript-steven-mnuchin-and-wilbur-ross-speak-with-cnbc-squawk-box-today.html> (accessed 16 Jun. 2017).

⁸⁶ Dean, J., Waterfield, B., and Wright, O. (2017), ‘Trump puts EU ahead of Britain in trade queue’, *The Times*, 22 April 2017, <https://www.thetimes.co.uk/article/trump-puts-eu-ahead-of-britain-in-trade-queue-l7t8zwn7k> (accessed 16 Jun. 2017).

⁸⁷ Office of the United States Trade Representative (2017), *2017 Trade Policy Agenda and 2016 Annual Report of the President of the United States on the Trade Agreements Program*.

⁸⁸ Bown, C. P. (2017), *Steel, Aluminum, Lumber, Solar: Trump’s Stealth Trade Protection*, Washington, DC: Peterson Institute for International Economics, <https://piie.com/system/files/documents/pb17-21.pdf> (accessed 16 Jun. 2017).

⁸⁹ C-Span (2017), ‘Commerce Secretary Confirmation Hearing’, 18 January 2017, <https://www.c-span.org/video/?421257-1/commerce-secretary-nominee-wilbur-ross-testifies-confirmation-hearing> (accessed 16 Jun. 2017).

to national security.⁹⁰ And in August it self-initiated an investigation under another rarely used trade law (Section 301 of the Trade Act of 1974), examining whether China's handling of technology transfer and intellectual property 'are unreasonable or discriminatory and burden or restrict U.S. commerce'.⁹¹

Despite Trump's campaign rhetoric – particularly his undertaking to designate China as a currency manipulator on 'day one' – cracking down on currency manipulation will in reality be less of a focus for his administration. Treasury Secretary Steven Mnuchin has been seen to take a much more moderate approach. In the Treasury's 2017 April and October reviews of foreign-exchange markets, China was not classed as a currency manipulator, although it continued to be included (along with Japan, South Korea, Germany and Switzerland) on the 'Monitoring List' of major trading partners that merit close attention to their currency practices.⁹² Even if the Treasury identifies China as a currency manipulator in the future, current laws do not authorize the imposition of countervailing duties. The Treasury would be able to initiate 'enhanced bilateral engagement', and the president could take subsequent steps, only if China does not adopt appropriate policies within one year of designation.⁹³

The administration is also expected to bring more cases at the WTO, particularly against China. Although Trump pointed to a potential US withdrawal from the WTO on the campaign trail, this is highly unlikely in reality, given constraints ranging from the prospect of severe market reaction and congressional resistance at home to opposition from other countries. With Robert Lighthizer – a long-time trade attorney who previously served under the Reagan administration – as the USTR, the US will remain in the WTO as a more combative member. During his confirmation hearing in March 2017, Lighthizer stated that he would bring as many trade enforcement actions as are justified under WTO rules, bilateral trade agreements and US law.⁹⁴ Compared with his predecessors, he will be more focused on trade enforcement rather than trade liberalization. In addition to initiating cases, Lighthizer is likely to push for reform of the WTO's dispute settlement process.⁹⁵

The 2017 USTR trade policy agenda states that the administration will not be bound by WTO rulings that 'undermine the ability of the United States and other WTO Members to respond effectively to these real-world unfair trade practices'.⁹⁶ In other words, if a WTO panel or appellate body finds the US to be in violation of its obligations, US law or practice will not automatically be changed. This would have implications for the WTO as a forum for dispute settlement.

⁹⁰ US Department of Commerce (2017), 'Section 232 Investigation on the Effect of Imports of Steel on U.S. National Security', <https://www.commerce.gov/page/section-232-investigation-effect-imports-steel-us-national-security> (accessed 31 Aug. 2017);

US Department of Commerce (2017), 'Section 232 Investigation on the Effect of Imports of Aluminum on U.S. National Security', <https://www.commerce.gov/page/section-232-investigation-effect-imports-aluminum-us-national-security> (accessed 31 Aug. 2017).

⁹¹ Office of the United States Trade Representative (2017), 'USTR Announces Initiation of Section 301 Investigation of China', <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/august/ustr-announces-initiation-section> (accessed 31 Aug. 2017).

⁹² US Department of the Treasury, Office of International Affairs (2017), *Foreign Exchange Policies of Major Trading Partners of the United States*, 14 April 2017, Washington, DC: US Department of the Treasury, <https://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2017-04-14-Spring-2017-FX-Report-FINAL.PDF> (accessed 16 Jun. 2017); US Department of the Treasury, Office of International Affairs (2017), *Foreign Exchange Policies of Major Trading Partners of the United States*, 17 October 2017, Washington, DC: US Department of the Treasury, [https://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2017-10-17%20\(Fall%202017%20FX%20Report\)%20FINAL.PDF](https://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2017-10-17%20(Fall%202017%20FX%20Report)%20FINAL.PDF) (accessed 30 Oct. 2017).

⁹³ Clinton, W., Lincicome, S. S., Picone, B., Eglin, R. and Barrett, W. (2017), 'Possible Unilateral Actions under US Law', White & Case, 13 January 2017, https://www.whitecase.com/publications/article/possible-unilateral-actions-under-us-law#_ftnref3 (accessed 16 Jun. 2017).

⁹⁴ C-Span (2017), 'U.S. Trade Representative Confirmation Hearing', 14 March 2017, <https://www.c-span.org/video/?425333-1/us-trade-representative-nominee-testifies-confirmation-hearing&live> (accessed 31 Aug. 2017).

⁹⁵ Behsudi, A. (2017), 'The man getting ready to take on the WTO', Politico, 15 February 2017, <http://www.politico.com/agenda/story/2017/02/robert-lighthizer-wto-000304> (accessed 16 Jun. 2017).

⁹⁶ Office of the United States Trade Representative (2017), *2017 Trade Policy Agenda and 2016 Annual Report of the President of the United States on the Trade Agreements Program*, p. 4.

Discouraging ‘offshoring’

A central campaign pledge made by Trump was to reverse the trend of US companies offshoring jobs – particularly in manufacturing – to other countries. As president-elect, he threatened to penalize offshoring companies with a 35 per cent tariff on imports of products for sale back in the US.⁹⁷ Such a disincentive would encounter significant opposition from industry.

A central campaign pledge made by Trump was to reverse the trend of US companies offshoring jobs – particularly in manufacturing – to other countries.

Beyond trade policy – and even before Trump’s victory in 2016 – the idea of a border tax adjustment has also been floated to deter offshoring. In June 2016 House Speaker Paul Ryan and House Ways and Means Committee Chair Kevin Brady called for border adjustments as part of a wider reform of the tax code. According to their plan, a 20 per cent business tax would replace the current 35 per cent corporate income tax, and a destination-based tax system would replace the current worldwide tax system. The border tax adjustment would be implemented through a tax on imports (by denying business deductions for imports) and a rebate to exports (by excluding export revenue from a company’s tax base).⁹⁸

Faced with significant opposition, however, the White House and congressional leaders decided in July 2017 to set this controversial plan aside in the interests of advancing broader tax reform efforts.⁹⁹ While the border tax adjustment would have raised significant revenues and reduced the incentive for US multinational corporations to shift their production abroad to take advantage of lower foreign tax rates, it may not have helped to address the trade deficit.¹⁰⁰ Numerous questions were raised about the compatibility of the border adjustment tax with WTO rules. The plan also drew strong opposition from parts of the business community: importers such as Wal-Mart and Nike notably lobbied against it.¹⁰¹

⁹⁷ Gajanan, M. (2016), ‘Donald Trump Warns of 35% Tariff For Companies That Move Abroad’, *Fortune*, 4 December 2016, <http://fortune.com/2016/12/04/donald-trump-tariff-company-regulations/> (accessed 16 Jun. 2017).

⁹⁸ Hufbauer, G. C. and Lu, Z. (2017), *Border Tax Adjustments: Assessing Risks and Rewards*, Washington, DC: Peterson Institute for International Economics, <https://piie.com/publications/policy-briefs/border-tax-adjustments-assessing-risks-and-rewards> (accessed 16 Jun. 2017).

⁹⁹ The White House (2017), ‘Joint Statement on Tax Reform’, 27 July 2017, <https://www.whitehouse.gov/the-press-office/2017/07/27/joint-statement-tax-reform> (accessed 31 Aug. 2017).

¹⁰⁰ Hufbauer and Lu (2017), *Border Tax Adjustments: Assessing Risks and Rewards*. In theory, the border tax adjustment would not change the size of the trade deficit because the exchange rate should adjust – with the dollar appreciating by enough – to eliminate the higher cost of imports and the lower price of exports. See Feldstein, M. (2017), ‘The House GOP’s Good Tax Trade-Off’, *Wall Street Journal*, 5 January 2017, <https://www.wsj.com/articles/the-house-gops-good-tax-trade-off-1483660843> (accessed 16 Jun. 2017).

¹⁰¹ Jopson, B., Fleming, S. and Donnan, S. (2017), ‘Trump and the tax plan threatening to split corporate America’, *Financial Times*, 13 February 2017, <https://www.ft.com/content/008532fa-ef7a-11e6-ba01-119a44939bb6> (accessed 16 Jun. 2017).

5. Implications of the New US Trade Policy

Economic implications of US protectionism

With the Trump administration's trade policy still in flux, it is difficult to make a full assessment of its possible economic impact. If implemented in its more extreme version, US protectionism, as outlined on the campaign trail and since Trump's inauguration, could provoke retaliation by its trading partners, to the detriment of all parties.

Prior to the election, a study found that an outright trade war could lead to a recession in the US in 2019, with more than 4.8 million jobs lost.¹⁰² Export-dependent industries that manufacture equipment used to create capital goods in IT, aerospace and engineering would be the most severely affected. But even sectors unconnected to trade would feel the impact of a major trade dispute rippling through the economy, particularly in states where traded goods are produced, with Washington State, California, Massachusetts and Michigan projected to be the worst affected.

As already noted, a full trade war seems increasingly unlikely. But even scenarios that involve a 'milder' form of protectionism would have negative consequences for the US economy. Imposing tariffs on imports from specific countries would not only result in rising prices for consumers; it would also hit firms that depend on importing intermediary goods. This could eventually lead to trade diversion to other markets: for example, firms could begin to source their imports from suppliers in Southeast Asia instead of from Mexico or China.¹⁰³ Thus, tariffs would not automatically mean more products being made in the US.

While the imposition of trade barriers may offer protection to some industries, it would reduce incentives for innovation and hamper the US's competitive edge overall. As a consequence of higher intermediate inputs, exports would also become more expensive and thus less competitive in the global marketplace. Combined with the cumulative costs, including time and effort, arising from potential trade disputes, US GDP growth could be adversely affected.

Strategic implications

Three strategic implications of the Trump administration's trade policy stand out: the geostrategic effects of a US withdrawal from mega-regional trade deals; the consequences arising from a 'deal-making' model of foreign relations that focuses on trade; and the ramifications for international economic cooperation.

¹⁰² Noland, M., Robinson, S. and Moran, T. (2016), 'Impact of Clinton's and Trump's Trade Proposals', in Noland et al. (2016), *Assessing Trade Agendas in the US Presidential Campaign*.

¹⁰³ Sapiro, M. (2017), 'Trade', in Wickett, X. (ed.) (2017), *America's International Role Under Donald Trump*, Chatham House Report, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2017-01-18-americas-international-role-trump-wickett-final2.pdf> (accessed 16 Jun. 2017).

Withdrawal from mega-regional trade deals

By withdrawing from the TPP and casting a shadow of uncertainty over the future of TTIP and TiSA, the US is abandoning its leadership role in international trade. This hurts its credibility as a reliable partner, and undermines the West's ability to set the rules for international trade.

In particular, the Trump administration's abandonment of the TPP is seen by its critics as reinforcing doubts about the US's commitment to economic leadership in the Asia-Pacific region.¹⁰⁴ It is also a setback for efforts to deepen key partnerships in a strategically important part of the world. One of the intended benefits of the TPP would have been in encouraging domestic economic reforms in Japan and Vietnam, but such ambitions have now been dealt a serious blow.¹⁰⁵ While other TPP signatories are now engaged in efforts to keep the deal going in the absence of the US, increasingly some countries in the region are being pulled into the orbit of China, which has been backing the rival RCEP. There is an overlap of seven between the 12 countries that had signed the TPP and the 16 countries that are negotiating the RCEP.¹⁰⁶ Unlike the TPP, however, the RCEP is mostly concerned with tariff reductions, and does not focus on high standards in new trade issues such as the digital economy, state-owned enterprises, labour and environmental protection.

With TTIP on hold, questions have been raised about the ability of the US and the EU to provide joint international economic stewardship. An opportunity has also been missed to reassert the transatlantic alliance. The stalled TTIP process is a major blow for the EU, which has recently passed a tough credibility test in concluding its trade deal with Canada but is preparing itself for the loss of a pro-free trade voice and its second largest economy with the intended withdrawal of the UK.¹⁰⁷ At the same time, with the US apparently retreating from the global trade arena, there is an opportunity for the EU to become the primary advocate for high standards in international trade agreements. EU Trade Commissioner Cecilia Malmström has emphasized that the US's decision to scrap the TPP presents the union with new trade opportunities in the Asia-Pacific region, and has pointed to increased interest on the part of other TPP signatories in engaging with the EU as a trade partner.¹⁰⁸

With the TiSA process – involving 23 WTO members that together account for 70 per cent of the value of global trade in services – currently on hold, there would appear to be little impetus to set a new cornerstone for shaping the trade rules of the 21st century. By not taking the opportunity to advance trade rules governing financial services, telecommunications and e-commerce, the US puts itself at a strategic disadvantage as a global leader in these areas. And given its uncertain future, TiSA – envisioned as an open agreement that could eventually translate into a broader WTO arrangement – is unlikely to kick-start the trade agenda under WTO auspices.

¹⁰⁴ See for instance comments by Michael Froman (the Obama administration's USTR who negotiated the TPP) and Senator John McCain in Baker, P. (2017), 'Trump Abandons Trans-Pacific Partnership, Obama's Signature Trade Deal', *New York Times*, 23 January 2017, https://www.nytimes.com/2017/01/23/us/politics/tpp-trump-trade-nafta.html?_r=0 (accessed 16 Jun. 2017).

¹⁰⁵ Heath, T. R. (2017), 'Strategic Consequences of U.S. Withdrawal from TPP', RAND Corporation, 27 March 2017, <https://www.rand.org/blog/2017/03/strategic-consequences-of-us-withdrawal-from-tpp.html> (accessed 16 Jun. 2017).

¹⁰⁶ The seven countries are Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam.

¹⁰⁷ The EU-Canada Comprehensive Economic and Trade Agreement (CETA) provisionally took effect in September 2017. For further information see European Commission (2017), 'EU-Canada trade agreement enters into force', 20 September 2017, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1723> (accessed 29 Sept. 2017).

¹⁰⁸ Hoppe, T. (2017), 'E.U. Trade Commissioner Warns U.S. against Trade War', *Handelsblatt*, 20 February 2017, <https://global.handelsblatt.com/politics/e-u-trade-commissioner-warns-u-s-against-trade-war-709208> (accessed 16 Jun. 2017).

Trade and a deal-making model of foreign relations

President Trump portrays himself as a deal-maker, and has repeatedly emphasized his willingness to tie trade to other foreign policy issues. The US–China relationship is the most prominent example of this model.

Tackling the US trade deficit with China will be an important goal for the administration. In order to get Beijing to agree to concessions on trade, the Trump administration could use issues related to the South China Sea or Taiwan as bargaining chips and offer President Xi greater scope for assertive behaviour in the region. Trump has also repeatedly suggested that he would use trade as an incentive to persuade China to be tougher on North Korea's missiles programme,¹⁰⁹ although he has denounced China's increased trade with North Korea during the first quarter of 2017 as a sign that Beijing is failing to cooperate sufficiently to rein in Pyongyang.¹¹⁰ The launch of the administration's investigation into China's practices regarding US intellectual property rights was reported in August 2017 to have been deferred in order to encourage China's cooperation at the UN on North Korea sanctions.¹¹¹ However, Trump's subsequent threat to cut off all US trade with any country that does business with North Korea was widely regarded as a warning for China, as North Korea's major trade partner, to do more to squeeze Kim Jong-un's regime.¹¹²

For all the president's rhetoric on using trade as a bargaining chip in relations with other countries, there have thus far been few signs of this being put into practice. For instance, regarding Mexico, Trump suggested that the NAFTA renegotiation should start with immigration and border security issues.¹¹³ He also floated the idea of introducing a 20 per cent tariff on Mexican imports, which his administration would recognize as a contribution from Mexico towards the cost of the wall he had repeatedly promised to build along the border.¹¹⁴ But these proposals are missing from the official US renegotiation objectives that have since been released.

Shortly before his inauguration, Trump seemed open to ending targeted sanctions on Russia (imposed in 2014 in response to Russia's annexation of Crimea and support for separatists operating in Ukraine), in return for a deal on nuclear weapons reduction.¹¹⁵ Although trade is a relatively minor factor in US–Russian relations and in the sanctions debate, the imposition of new sanctions in August 2017 – at the behest of Congress – has contributed to an escalation of tensions between the two countries, and makes striking a 'grand bargain' between Washington and Moscow almost impossible. Russia's Prime Minister Dmitry Medvedev described the recent measures as 'the declaration of a full-fledged trade war', while President Trump, who reluctantly signed the new sanctions bill, criticized it as infringing on his powers to strike good deals for the US.¹¹⁶

¹⁰⁹ See, for instance, Diamond, J. (2017), 'On North Korea, Trump signals break with US-China policy', CNN, 18 April 2017, <http://edition.cnn.com/2017/04/17/politics/trump-north-korea-china-policy/index.html> (accessed 16 Jun. 2017).

¹¹⁰ Gilchrist, K. (2017), 'China clashes with Trump over North Korean trade', CNBC, 7 July 2017, <http://www.cnbc.com/2017/07/07/china-trump-north-korea-trade-clash.html> (accessed 18 Jul. 2017).

¹¹¹ Talev, M. (2017), 'Trump to Wait on China Intellectual Property Probe', Bloomberg, 8 August 2017, <https://www.bloomberg.com/news/articles/2017-08-08/trump-is-said-to-wait-on-china-intellectual-property-probe> (accessed 31 Aug. 2017).

¹¹² Smith, A. (2017), 'North Korea Crisis: Trump Threatens to Stop U.S. Trade With China. Could He?', NBC News, 4 September 2017, <https://www.nbcnews.com/news/world/north-korea-crisis-could-trump-stop-u-s-trade-china-n798561> (accessed 29 Sept. 2017).

¹¹³ Martin, E. and Cattani, N. (2017), 'How Trump's Wall Makes NAFTA Talks Even Thornier: QuickTake Q&A', Bloomberg, 13 February 2017, <https://www.bloomberg.com/news/articles/2017-01-26/how-reopening-nafta-might-affect-three-nations-quicktake-q-a> (accessed 16 Jun. 2017).

¹¹⁴ Diamond, J. (2017), 'Trump floats 20% tax on Mexican imports to pay for wall, but considering other options', CNN, 27 January 2017, <http://edition.cnn.com/2017/01/26/politics/donald-trump-mexico-import-tax-border-wall/> (accessed 16 Jun. 2017).

¹¹⁵ Faulconbridge, G. and James, W. (2017), 'Trump's offer to Russia: an end to sanctions for nuclear arms cut – London Times', Reuters, 15 January 2017, <http://www.reuters.com/article/us-usa-trump-russia-arms-deal-idUSKBN14Z0YE> (accessed 16 Jun. 2017).

¹¹⁶ Weaver, C. and Foy, H. (2017), 'Trump grudgingly signs 'flawed' Russian sanctions bill', *Financial Times*, 3 August 2017, <https://www.ft.com/content/dbb3dbc0-7791-11e7-90c0-90a9d1bc9691> (accessed 31 Aug. 2017).

It remains to be seen how Trump's favoured transactional approach to trade and foreign policy will play out. In theory, linking trade to foreign policy issues could open up opportunities for deals and breakthroughs in US external relations. In reality, however, such deals may prove to be highly unstable in the face of complex historical relationships and competing interests.

International cooperation on trade: the WTO and the G20

With an inward-looking US whose rhetoric and actions put 'America first', international economic cooperation will be much harder to achieve. In the trade arena, a more aggressive US approach could lead to tensions with other major economies.

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international economic cooperation will be much harder to achieve.

Efforts to progress multilateral trade liberalization at the WTO had already stalled before Trump's election in 2016, but the prospect of the organization being able to move the multilateral agenda forward appear slim to none in the context of the US administration's preference for bilateral deals. Moreover, the WTO's role as a forum to settle trade disputes could be undermined by US protectionism. It is likely that the US will bring more trade cases before the organization, and also probable that its actions will cause more disputes to be brought against it. A more aggressive trade policy could mean that the US violates WTO rules, leading to more cases that it stands to lose.¹¹⁷ As already noted, the 2017 USTR trade policy agenda suggests that the US will not be bound by WTO rulings.¹¹⁸ Failure to comply with a ruling would seriously undermine the credibility of the WTO's dispute settlement system.

The G20 has latterly been struggling to provide leadership on the rising risks to the global economy, notwithstanding its successful containment of the worst of the global financial and economic crisis that began a decade ago. Until recently, one thing that all G20 leaders agreed on was the commitment to free trade. With the Trump administration at the table, however, the G20 did not settle on a basic statement opposing protectionism. Instead, after intense discussions, the compromise communiqué acknowledged the traditional pledge to fight protectionism while making concessions to Trump. That a shared language regarding trade was arrived at in the G20 statement stands in contrast to wording on climate change and the Paris agreement, in which the US set itself apart from the other 19 countries. While the joint language on the trade issue is an achievement, the compromise wording now has to be translated into action. Otherwise, the G20 risks losing relevance at a time when protectionism has been identified as a key risk for the global economy.¹¹⁹

¹¹⁷ Bacchus, J. (2017), 'Trump's Challenge to the WTO', *Wall Street Journal*, 4 January 2017, <https://www.wsj.com/articles/trumps-challenge-to-the-wto-1483551994> (accessed 16 Jun. 2017).

¹¹⁸ The 2017 USTR trade policy agenda says that 'even if a WTO dispute settlement panel – or the WTO Appellate Body – rules against the United States, such a ruling does not automatically lead to a change in U.S. law or practice.' See Office of the United States Trade Representative (2017), *2017 Trade Policy Agenda and 2016 Annual Report of the President of the United States on the Trade Agreements Program*, p. 3.

¹¹⁹ For instance, in the run-up to the G20 summit in Hamburg, the IMF warned that inward-looking policies and protectionism are downside risks for economic growth. IMF (2017), *Global Prospects and Policy Challenges – G-20 Leaders' Summit, July 7–8, 2017, Hamburg, Germany*, Washington, DC: International Monetary Fund, <https://www.imf.org/external/np/g20/pdf/2017/070517.pdf> (accessed 29 Sept. 2017).

6. Conclusion: Opportunities for a New Trade Framework

Donald Trump was elected president in part because he was able to tap into the sentiments of voters who felt that they had been left behind by trade. In this respect, some of his success was based on misperceptions (such as the exaggerated impact of trade on US jobs and wages, or a discourse that placed heavy emphasis on the US merchandise trade deficit while largely ignoring the surplus in the services sector), but he also pointed to valid concerns about international trade (for example, insufficient adjustment mechanisms for those adversely affected by trade, and unfair practices by some other countries). By building on the latter, there remains an opportunity to move the debate on trade forward during his term of office and address some genuine shortcomings within the current trade system. While productive engagement with Washington on trade will be a challenge for its international partners, there are other potential routes that could have a moderating effect on the Trump administration's protectionist intent. This concluding chapter sets out the components of a new framework that would, notwithstanding the incumbent president's 'America first' rhetoric, strengthen global trade.

Elements of a new trade framework

Pursuing alternative avenues for engagement on trade

External partners that recognize the benefits of bilateral and multilateral trade links involving the US, and of US leadership on trade liberalization, will still find allies within the Trump administration – among them National Economic Council director Gary Cohn and Secretary of State Rex Tillerson. Together, they should make common cause in emphasizing the economic and strategic opportunities for the US stemming from trade, and the risks of protectionism.

Given the role of Congress in shaping trade policy, external partners of the US should also deepen their engagement with relevant congressional players. House Speaker Paul Ryan and Senate Majority Leader Mitch McConnell, for example, support free trade and can play critical roles in forming alliances committed to moderating Trump's protectionist agenda. While for the Obama administration Congress was often an obstacle to moving the trade policy agenda forward, it now stands as a line of defence against excessive protectionism.

The US's partners should recognize that there is a critical role to be played by US states and cities in promoting trade and investment ties, and engage with governors and mayors in support of free trade. Notable among these potential allies are the leaders of the states bordering Mexico and Canada.

The US's partners can, moreover, look to further their own cooperation in the face of US disengagement on international trade. For instance, representatives from Mexico and Canada are already talking about how to work together in the NAFTA renegotiation; and the remaining 11 TPP countries have been exploring options to keep the deal alive without the US. Moreover, in July 2017 consensus among the other G20 countries played a role in persuading the Trump administration to moderate its stance and agree to joint language on trade at the Hamburg summit.

Busting myths – and acknowledging valid concerns

Making the case for trade liberalization has traditionally emphasized the benefits of open markets and international competition, while disregarding or downplaying concerns of sceptics. A more persuasive case would still emphasize the gains by highlighting the economic and strategic benefits of trade, but at the same time recognize that some concerns have basis in reality.¹²⁰

Discrediting myths is one important component in promoting a more positive message on trade. The best-known line holds that ‘exports are good, imports are bad’. But because imports allow for the consumption of a greater variety of goods and services at a lower price, the task for free-traders is to change the narrative to one of ‘exports are good, imports are good’.

A related myth is that the trade deficit is bad, and that closing it will return jobs to the US. While the effects of trade and technological change on the labour market cannot be entirely decoupled, what needs to be communicated more effectively is the far greater impact of new technologies and automation on jobs. This should promote a wider understanding that protectionism will not bring back manufacturing jobs; rather, it will kill current and future jobs. At the same time, even if technological change is the greater culprit in causing job displacement, the adverse consequences of trade are real and should not be dismissed. Affected individuals and communities need help to adjust, and governments must play a role in this.

The myth that bilateral deals serve the US economy better than do regional or multilateral deals should also be addressed. For the Trump administration to conclude multiple bilateral deals instead of a single regional agreement would have major disadvantages. Striking and ratifying deals country by country is more difficult, time-consuming and potentially more costly than is focusing on one larger agreement. And implementing multiple bilateral agreements would mean the introduction of many different sets of rules according to the arrangements concluded with each partner.¹²¹ By contrast, there is the prospect that the standards established in forging a single deal with many countries may eventually become global standards, thus setting the rules of the road.

Any trade negotiation needs a degree of confidentiality in order to progress. All the same, as negotiations are increasingly about reducing rules and regulations, the case for input from civil society and for wider public engagement has become stronger. While the public’s concerns over the potential impact of trade agreements on consumer, environmental and labour standards may be overblown at times, policymakers should nonetheless address their constituents’ fears. Furthermore, the US and its external partners should have an objective discussion on the need to balance investor protection via trade agreements with the government’s right to regulate.

Developing a new strategy to assist workers hurt by trade

Just as rehashing long-standing arguments in favour of free trade is not enough, neither will much be accomplished by simply expanding existing programmes to help workers adversely affected by trade. As already noted, TAA is restricted to certain parts of the US workforce, and is widely regarded as costly and ineffective. The name and objective of the scheme also contribute to the

¹²⁰ This section draws on Schneider-Petsinger, M. (2017), ‘Policy Recommendations for Strengthening Transatlantic Trade in Challenging Times’, in Dreher, V., Kantel, A. J., Kirchner, M., Langenbacher, E., Rizzo, R. and Schneider-Petsinger, M. (2017), *The Specter of Uncertainty: Policies for Strengthening the Transatlantic Relationship from the Next Generation of Leaders*, Washington, DC: American Institute for Contemporary German Studies, <http://www.aicgs.org/site/wp-content/uploads/2017/06/PR65-ERP-Next-Gen-FY17-1.pdf> (accessed 16 Jun. 2017).

¹²¹ Sapiro (2017), ‘Trade’.

public's misperception that trade – and not technological change – is the primary cause of job displacement in the US.¹²² This does not mean that TAA should be abandoned. Instead, it should be overhauled and become part of a more holistic approach to mitigating the effects of job displacement.

A comprehensive adjustment programme should be based on proposals for livelihood insurance. For instance, as set out in a 2016 paper by the Council on Foreign Relations, remedial measures should include: expanding the earned income tax credit for low-income workers; introducing wage insurance that tops up salaries for workers who lose jobs they have held for a minimum of three years and are re-employed at lower pay; providing income-contingent, repayable loans for workers wishing to retrain and upgrade their skills; and subsidizing relocation costs for workers who move to geographic areas where jobs are.¹²³

In order to respond to the job displacement caused by trade (as well as by technological change and other factors), the fundamental problem of a skills mismatch needs to be addressed. This is best done by investing in labour-market policies that focus on skills-training and lifelong learning. Concrete initiatives should centre on increasing funding to community colleges and encouraging apprenticeships. Indeed, in June 2017 President Trump signed an executive order to increase the number of apprenticeships.¹²⁴

Investment in human capital is not only essential to help the US compete internationally, but is also needed to help rebuild the domestic consensus in support of the country's leadership on trade.

A comprehensive strategy aimed at both assisting workers affected by trade liberalization and increasing the resilience of the workforce for the future should involve the federal, state and local governments as well as the private sector. Investment in human capital is not only essential to help the US compete internationally, but is also needed to help rebuild the domestic consensus in support of the country's leadership on trade.

Enforcing existing trade agreements and tackling unfair practices

The trade agreements that the US has entered into, along with the rules of the WTO, are enforceable. However, some countries stretch these rules and thus tilt the playing field in their favour. Monitoring compliance and enforcing rules is, moreover, highly costly and very time-consuming.

The Trump administration has made the enforcement of existing trade agreements a priority, and has signalled that it will vigorously invoke US laws in conjunction with bilateral, regional and WTO mechanisms for dispute settlement. It will also likely self-initiate investigations into subsidies and dumping as well as other perceived unfair trade practices. However, this should be done in such a way that does not politicize trade remedy actions or risk unravelling established processes for international dispute resolution.

¹²² Alden, E. and Litan, R. E. (2016), *A Winning Trade Policy for the United States*, New York, NY: Council on Foreign Relations, http://i.cfr.org/content/publications/attachments/Discussion_Paper_Alden_Litan_Trade_Policy_OR.pdf (accessed 16 Jun. 2017).

¹²³ *Ibid.*

¹²⁴ This executive order aims at '[e]xpanding apprenticeships and reforming ineffective education and workforce development programs'. It directs the Department of Labor to take steps to expand access to and promote apprenticeship programmes, and calls for the establishment of a taskforce to coordinate such efforts. The White House (2017), 'Presidential Executive Order Expanding Apprenticeships in America', 15 June 2017, <https://www.whitehouse.gov/the-press-office/2017/06/15/presidential-executive-order-expanding-apprenticeships-america> (accessed 18 Jul. 2017).

In bringing cases against China before the WTO, there is a potential for collaboration between the US and the EU. Overcapacity in the Chinese steel sector also hurts European businesses, and the EU is currently reforming its own trade-defence instruments in order to better respond to what it deems unfair practices. At the beginning of October, the European Parliament, Council and Commission agreed on a new methodology to calculate dumping.¹²⁵ Meanwhile, proposals for the modernization of trade-defence instruments – focusing on improving transparency, faster procedures and more effective enforcement – are the subject of ongoing discussions between the EU institutions.¹²⁶ Thus, through a coordinated response to unfair trade practices, the US and the EU could not only leverage their resources, but also be more effective in shielding their respective domestic producers from unfair competition.

The issue of currency manipulation is currently not addressed in trade agreements, and neither the IMF nor the WTO is able to respond effectively in this context.¹²⁷ This aspect should be added to new trade agreements. A currency chapter in future trade deals could, for example, include a specific obligation to refrain from manipulation and introduce a dispute settlement mechanism.¹²⁸

At a time when the US public (like others globally) is sceptical about trade agreements, taking a tougher stance on enforcement and tackling unfair practices – as the Trump administration is suggesting – could actually help to restore public confidence in trade being conducted on fair terms and on a level playing field.

Modernizing NAFTA

Renegotiation of NAFTA is also a priority for the Trump administration. If done right, this may be beneficial not just for the US, but also for Mexico and Canada: the goal should be to strengthen the competitive position of North America as a whole. There is a need to modernize NAFTA, and given that areas such as the digital economy were still nascent concepts when the agreement came into force in 1994, e-commerce and data flows should be included in a revamped NAFTA.

Labour and environment provisions were originally covered in side agreements. These should be brought formally into NAFTA in order to strengthen these areas and give them the same legal status as the rest of the agreement, making enforcement much easier. Moreover, as trade agreements are now more about rules and less about tariffs, including these provisions would give workers greater protection.

When NAFTA was negotiated, it notably failed to establish a fully integrated North American energy market. At the time, Mexico's constitution exempted the country from most of the energy investment provisions. Its constitutional reforms in 2013 mean that energy can now be addressed in a NAFTA renegotiation. Improving energy provisions is an objective shared by all NAFTA parties.¹²⁹

¹²⁵ European Commission (2017), 'The EU is changing its anti-dumping and anti-subsidy legislation to address state induced market distortions', 4 October 2017, http://europa.eu/rapid/press-release_MEMO-17-3703_en.htm (accessed 15 Oct. 2017).

¹²⁶ Ibid.

¹²⁷ The IMF prohibits countries from manipulating their currency for the purpose of gaining unfair trade advantage, but it does not have the mechanism to force a country to change its exchange rate policies. While the WTO has an enforcement mechanism, the concept of currency manipulation is not well defined. The WTO has rules against subsidies, but it is not clear whether an intentional undervaluation of a country's currency classifies as an export subsidy under the organization's current definition. See Sanford, J. E. (2011), *Currency Manipulation: The IMF and WTO*, Washington, DC: Congressional Research Service, <https://fas.org/sgp/crs/misc/RS22658.pdf> (accessed 18 Jul. 2017).

¹²⁸ Fred Bergsten has, for example, suggested addressing currency manipulation in TPP. See Bergsten, C. F. (2014), *Addressing Currency Manipulation Through Trade Agreements*, Washington, DC: Peterson Institute for International Economics, <https://piie.com/sites/default/files/publications/pb/pb14-2.pdf> (accessed 16 Jun. 2017).

¹²⁹ Esposito, A. and Daniel, F. J. (2017), 'NAFTA negotiators seek to enshrine Mexico's energy reforms', Reuters, 2 September 2017, <https://uk.reuters.com/article/us-trade-nafta/nafta-negotiators-seek-to-enshrine-mexicos-energy-reforms-idUKKCN1BD0TS> (accessed 29 Sept. 2017).

By recrafting the rules of NAFTA, there is an opportunity to tackle the mutually acknowledged shortcomings of the current deal. There could be a shared win for all three parties if reasonable compromises can be found.

Striking new trade deals: focusing on competitive sectors and major trade partners

The US can benefit from further trade liberalization. Given that its tariffs and other trade barriers are already among the lowest in the world, entering into new agreements would entail other countries lowering their restrictions much more in comparison.

Some of the highest remaining barriers are in the services sector, where US businesses are global leaders and have a competitive advantage. Moreover, the US consistently has a large trade surplus in the services sector, standing at some \$250 billion in 2016.¹³⁰ If services achieved the same export performance as manufactured goods, total US exports could rise by \$800 billion a year.¹³¹ Bringing down barriers to trade in services is especially important, as the services sector provides 80 per cent of jobs and generates approximately 70 per cent of economic output.¹³²

Future trade negotiations should focus on areas in which the US has a lead, such as financial and insurance services, telecommunications, the use of intellectual property rights, and business services such as engineering and architectural design. Resisting efforts to reduce foreign trade barriers in those sectors would disadvantage the most competitive US industries and miss a significant opportunity to reap the benefits from trade.

The US should also encourage the participation of small and medium-sized enterprises (SMEs), as well as microenterprises, in trade. New opportunities arise with the evolution of e-commerce and global value chains. Significant hurdles remain, however, including the logistics and costs of shipping goods or delivering services, security and data protection issues, payments, and regulatory uncertainty.¹³³ Already the country's 30 million SMEs account for almost two-thirds of net new private-sector jobs created in the US in recent decades;¹³⁴ and by tackling these issues via trade agreements, the boost to the participation of SMEs in global trade could help to further stimulate employment.

At the bilateral level, the US should consider entering into trade negotiations with Japan and, in due course, the UK. Using the TPP concessions as a starting point, a US–Japanese agreement may be achievable even if significant obstacles, including addressing the large US trade deficit, remain. Given the sheer volume of trade between the two countries – with Japan the fourth largest trade partner for the US – reducing barriers to trade would in itself provide mutual economic benefits. Japan is, moreover, an important US ally in the Asia-Pacific region, and a crucial partner in defending the rules-based international order.

Before the Brexit referendum and the election of Donald Trump in 2016, the US was on track to create a formal trade partnership with the UK through the TTIP negotiations with the EU. President Trump

¹³⁰ US Census Bureau, Economic Indicators Division (2017), 'U.S. Trade in Goods and Services – Balance of Payments (BOP) Basis'.

¹³¹ Executive Office of the President of the United States (2015), *The Economic Benefits of U.S. Trade*, Washington, DC: Executive Office of the President of the United States, https://obamawhitehouse.archives.gov/sites/default/files/docs/cea_trade_report_final_non-embargoed_v2.pdf (accessed 16 Jun. 2017).

¹³² US Department of Labor, Bureau of Labor Statistics (2015), 'Industry employment and output projections to 2024', <https://www.bls.gov/opub/mlr/2015/article/industry-employment-and-output-projections-to-2024.htm> (accessed 16 Jun. 2017).

¹³³ World Trade Organization (2016), *World Trade Report 2016 – Levelling the trading field for SMEs*, Geneva: World Trade Organization, https://www.wto.org/english/res_e/booksp_e/world_trade_report16_e.pdf (accessed 16 Jun. 2017).

¹³⁴ Office of the United States Trade Representative (undated), 'Small- and Medium-Sized Enterprises (SMEs)', <https://ustr.gov/trade-agreements/free-trade-agreements/transatlantic-trade-and-investment-partnership-t-tip/t-tip-12> (accessed 16 Jun. 2017).

has already made it clear that he would favour a US–UK free-trade agreement. Despite the known barriers that preclude a quick deal, this opportunity should be seized after the UK's withdrawal from the EU. The two economies are deeply integrated – with the UK the seventh largest trade partner for the US, and the US ranked as the UK's second largest – and both would further benefit from a discrete trade agreement.

Efforts to strike trade deals with Japan and the UK would send a critical message that the US under President Trump is not against free trade *per se*. It would also be a positive step, and could potentially pave the way for further trade liberalization more widely. Overall, understanding where the competitive advantage and future trends in trade are, and leading negotiations in those areas, will help to ensure that trade will create more winners in the US.

A critical juncture for US trade policy

Trade will remain a key topic in the US mid-term elections in 2018 – where it will likely be a factor in states that have overtly benefited or lost from it such as border states or the rustbelt – and the presidential election due in 2020. Given the centrality of trade to Trump's campaign in 2016, his supporters and opponents will ask whether he has delivered on that front.

Although Trump's campaign rhetoric suggested a fundamental change to trade policy, his administration thus far seems to be taking a much more moderate and conventional approach. Despite the significant presidential powers on trade, Trump is also faced with constraints ranging from the role of Congress to infighting between major Republican factions, the involvement of the cabinet and agencies, economic considerations, voter preferences and the prevailing international environment on trade.

The key guiding principles of reducing the trade deficit and enforcing trade laws suggest that the administration's policy will take a more protectionist turn compared with previous ones, through actions such as focusing on renegotiating NAFTA, moving from mega-regional to bilateral deals, making more aggressive use of trade remedies and tackling unfair practices, and discouraging offshoring of jobs.

This new trade policy will have wide-ranging economic and strategic implications. It will impact how the US engages in international forums such as the WTO or G20. It will diminish the US's leadership in international trade and its ability to set the rules, and will deal a blow to deepening key relationships with trade partners in strategically important regions of the world. Without the US as its champion, the global trade agenda risks faltering.

US trade policy has reached a critical juncture. The old approach no longer works. But broad protectionism cannot be the answer; nor can retreating from international trade be a viable solution. Neither would address the core concerns.

Instead, a new US trade policy framework is needed. Crucial elements of this could be better strategies to help those whose jobs and livelihoods have been disrupted (whether because of trade or technological change), better enforcement of existing agreements and discouragement of unfair practices, modernization of NAFTA, and new deals in areas where the US has a competitive edge and with countries that are economically as well as strategically important. But the case for trade must also be made differently: busting myths and highlighting the benefits of trade need to go hand in hand with acknowledging legitimate fears.

If a new trade policy framework can be developed, then Trump's presidency could offer a chance to move the debate forward and actually strengthen global trade.

Acronyms

EU	European Union
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
IMF	International Monetary Fund
ISDS	investor–state dispute settlement
ITO	International Trade Organization
KORUS	US–Korea Free Trade Agreement
NAFTA	North American Free Trade Agreement
OTMP	Office of Trade and Manufacturing Policy
RCEP	Regional Comprehensive Economic Partnership
SMEs	small and medium-sized enterprises
TAA	Trade Adjustment Assistance
TiSA	Trade in Services Agreement
TPA	Trade Promotion Authority
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
USTR	United States Trade Representative
WTO	World Trade Organization

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Cover image: US President Donald Trump speaks at Snap-On Tools in Kenosha, Wisconsin, on 18 April 2017, prior to signing the Buy American, Hire American Executive Order.

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