US Election Note: Trade Policy After 2016
Summary

- Trade policy has become a target of voters unhappy with stagnant wages and growing economic inequality. The populist opposition to trade agreements that has emerged during the presidential campaign is serious and reveals deeper anxieties about economic insecurity. This is despite the fact that such agreements help open foreign markets, boosting exports of US goods and services and supporting US job growth.

- Both Hillary Clinton and Donald Trump have taken tough stances on several trade issues, such as opposing ratification of the Trans-Pacific Partnership (TPP) and strengthening enforcement of trade obligations with respect to all partners, especially China.

- Trump differs sharply from Clinton, however, with his threats to tear up existing trade agreements, withdraw from the World Trade Organization (WTO) and impose tariffs as high as 45 per cent on imports from China and Mexico. Such protectionist policies are likely to backfire and hurt the very people Trump purports to want to help. They would make imports more expensive and invite retaliatory tariffs, rendering US exports less competitive. The result of such policies would be not just a weaker US economy, but also a weaker global one.

- Whichever candidate wins, the United States will enter a period of introspection in which current initiatives are assessed critically and new ones developed. There will be pressure to adopt a broader trade agenda that goes beyond traditional issues to address the root causes of growing economic malaise.

- Globally, key partners of the United States will gauge the extent to which the next administration will be ready to engage with them to address common economic and strategic challenges, including the fate of the TPP and the Transatlantic Trade and Investment Partnership (TTIP).
Introduction

The 2016 race for the White House has taken on increasingly populist and nationalistic overtones. The phenomenon is not unique to the United States. Populism and nationalism are also sweeping across Europe – in the United Kingdom, France, Austria, Hungary and elsewhere. Politicians have tapped into the growing anger and frustration that voters feel towards incumbent governments, which they blame for diminishing economic opportunities and for other concerns.

In the United States, trade policy has become one of the targets of this disaffection. In reality, the US trade agenda developed over the years by both Democratic and Republican administrations has had a largely positive impact on domestic economic growth and job creation. It has become easy, however, to blame trade policy for other shortcomings. These include an insufficient social safety net and inadequate retraining opportunities for those who have lost their jobs due to globalization and advances in technology. Trade policy has also become a scapegoat for deeper concerns. This raises questions about the extent to which the next president will be able to address broader problems that have led to stagnant wages and widening income inequality for American workers.

Several other factors have kept the spotlight on trade. First, in October 2015 the United States finished negotiations on a major new trade pact, the Trans-Pacific Partnership (TPP), with 11 other Pacific Rim countries, just as the primary campaign season was heating up. One reason why the deal is controversial is that the participants include Vietnam and Malaysia, which offer commercial opportunities for US businesses but are also the object of concerns over labour practices and human rights. Second, it is often easier to point to specific manufacturing operations moving overseas, or to jobs lost due to a plant closing, than it is to highlight overall gains from trade, which are more widespread. Finally, in a race in which soundbites and 140-character tweets are getting more attention than concrete proposals, it is difficult to convey nuanced policy choices and to direct voters’ attention towards underlying challenges to greater economic growth.

Although trade features prominently in the presidential campaign, it still ranks near the bottom of voters’ concerns relative to other issues, such as defending against terrorism.1 But there is always a chance that the trade debate could affect the margin of victory in a few pivotal states. For instance, Pennsylvania and Ohio, where workers in the steel, coal and other industries have faced stiff competition from abroad, together offer 38 electoral votes and are viewed as potentially decisive battleground states.

Background

The US economy has enjoyed stronger growth than many countries over the past few years, although President Barack Obama has so far earned relatively little credit for this from the public.2 Obama took office in early 2009 at the height of the global financial crisis, and his administration’s

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efforts helped to keep a serious recession from becoming an even more dire depression. Under Obama’s watch, the unemployment rate has been brought down to less than 5 per cent (although concerns about underemployment persist), there have been 75 consecutive months of job creation, the deficit has shrunk by almost 75 per cent, and 20 million more Americans have health insurance. Notwithstanding more sluggish economic growth recently, conventional wisdom suggests that this trajectory should benefit the Democratic candidate more than the Republican one. However, it is historically rare for a candidate to win after a president from the same party has held the White House for two terms.

Despite the improved economy, many Americans remain worried by stagnant wages and the impact this has on their ability to provide for their families. In a recent survey by the Federal Reserve Board, 46 per cent of adults said that they either could not cover a $400 emergency expense or could cover it only ‘by selling something or borrowing money’. Today more than 20 per cent of American children live in poverty. The US education system, once the envy of the world, lags behind its counterparts in many other countries. Too many graduating students are saddled with onerous debt. The tax system rewards the wealthiest who know their way around its loopholes, and leaves US infrastructure crumbling. The government has yet to figure out how to offer a more effective social safety net and better retraining opportunities to those whose jobs have been displaced by trade or advances in technology and productivity. The federal Trade Adjustment Assistance Program was renewed but is underfunded.

It is tempting to blame trade policy in general and trade agreements in particular for job losses, downward pressure on wages and the increasing wealth gap, but that view overlooks key changes in the US economy. While the United States remains a ‘manufacturing powerhouse from the point of view of production ... it simply does not take that many workers to produce the output’. Studies that have looked at job losses in the context of trade agreements have found that such causality is not clear, and that the decision to negotiate a trade agreement has little impact on the forces of globalization and technological change already in play. The 1994 North American Free Trade Agreement (NAFTA), for example, is routinely criticized for hurting US jobs. Although it failed to live up to some rosy projections, economists have found its impact on job losses to have been negligible. One study highlighted that nearly 17 million jobs were added to the US economy in the seven years after NAFTA’s passage, and that the unemployment rate fell from 6.9 to 4.0 per cent during the same period. Today trade constitutes about 30 per cent of the US economy, supporting about 41 million jobs – or one out of every five US jobs.

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Trade agreements, if they embrace enforceable high standards, are essential to reducing the barriers that prevent or restrict US goods and services from entering foreign markets. Since the US economy is already relatively open, trading partners seeking access to the US market face fewer barriers to entry than US exporters typically encounter overseas. A trade agreement can therefore help US companies and workers compete on a more equal footing, leading to increased exports of goods and services and more US jobs. If oil is excluded, the United States enjoys an aggregate trade surplus in manufactured goods with the 20 countries with which it currently has a trade agreement. The Department of Commerce estimates that every additional $1 billion in exports supports nearly 6,000 jobs, and that these export-related jobs pay on average 18 per cent more than others.

After Obama won re-election in 2012, trade was one of a handful of issues on which the prospects for bipartisan cooperation seemed promising. The president had already decided to advance the TPP negotiations begun under President George W. Bush with Brunei, Chile, Singapore and New Zealand. He expanded the negotiations to include other countries, initially Australia, Peru, Vietnam and Malaysia, and later Canada, Mexico and Japan. Although the TPP has not yet been ratified, Obama views the agreement as an important part of his legacy with respect to both strengthening the United States’ role in Asia and building a competitive US economy. In 2013, the administration officially launched a second major regional trade negotiation, this time with the EU, called the Transatlantic Trade and Investment Partnership (TTIP). President Obama views the conclusion and passage of both this and the TPP as placing the United States in the enviable centre of two powerful trading blocs.

Policy positions

Hillary Clinton

Clinton has set a high bar for trade agreements, pledging to support them only if they meet a strict three-part test: they must create US jobs, they must raise wages of US workers and they must advance national security. Her case-by-case approach over the years has led her to support some agreements, such as the United States–Australia Free Trade Agreement, and to oppose others, such as the Dominican Republic–Central America Free Trade Agreement.

Clinton has emphasized that she ‘will defend American jobs and American workers by saying “no” to bad trade deals and unfair trade practices, including the Trans-Pacific Partnership, which does not meet my high bar for creating good-paying jobs’. She opposed the outcome of the negotiations over the TPP, having previously stated as secretary of state that she wanted it to set a ‘gold standard’ among such agreements, when it became clear that the end result did not satisfy her conditions.

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Clinton has attracted criticism for changing her position on the TPP. However, this can best be understood as shifting from aspirational support for the negotiations, which was not based on specifics at the time, to opposition to the details of a deal that she has since had a chance to examine. When the text was finalized and made available for review, she noted the presence of ‘too many loopholes, too many opportunities for folks to be taken advantage of’. One area she views as especially problematic concerns the ‘rules of origin’ for automobiles and parts, the thresholds for which are lower than in NAFTA. This would enable more goods from countries that are not part of the agreement, such as China, to be incorporated into final products and to enter the US market with preferential treatment. Clinton has also expressed concern that the currency manipulation provisions in the TPP are too weak. In response to a question as to whether she would support the agreement’s passage after the November election, during a ‘lame duck’ session of Congress, she said that her opposition to the deal ‘means before and after the election’. Pressed further, she stated recently: ‘I oppose [TPP] now. I’ll oppose it after the election, and I’ll oppose it as president.’

Given the tenor of the current debate over trade agreements generally, it will make sense for the next president to improve enforcement of existing trade obligations before pursuing or finalizing new initiatives. Yet it is also possible, if there is clearer European support, that a Clinton presidency will focus on concluding TTIP; as secretary of state, Clinton viewed this agreement as promising and described it as an ‘economic NATO’. Although a US–EU agreement has lost some of its economic lustre as a result of the United Kingdom’s decision to leave the EU, a comprehensive outcome could still offer significant benefits to the US economy without raising the same concerns as the TPP.

Clinton has also taken a tough stance towards China, pledging to aggressively pursue trade cases and impose consequences on the country when it breaks the rules. She has expressed particular concern that ‘China illegally dumps cheap products in our markets, steals our trade secrets, plays games with their currency, gives unfair advantages to state-owned-enterprises and discriminates against American companies’. Her concerns about China are not new: while serving in the Senate she co-sponsored legislation requiring the Bush administration to take stronger measures against China, including on currency manipulation. She has pledged to expand the US toolbox of remedies beyond greater monitoring and transparency regimes to include tariffs and other measures.

Clinton has said she is not ‘interested in tinkering around the margins of our trade policy’. She has called for a ‘fundamental rethink of how the United States approaches trade deals going forward’.

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This would include stronger enforcement of trade rules, including by shifting more of the burden of initiating trade cases away from workers and unions and on to the US government, naming a new chief trade prosecutor, and tripling the number of enforcement officers.20

Nonetheless, Clinton has warned that isolationism and protectionism are a dangerous and illusory remedy to the United States’ economic problems. She has said, ‘Even if the United States never signs another trade deal, globalization isn’t going away.’21 She has also argued that ‘you have to trade with the rest of the world’ given that 95 per cent of the world’s population lives outside the United States. 22

Donald Trump

While Trump has said he favours free trade, he is opposed to several US trade agreements. He has argued that they were negotiated by inept representatives and have resulted in job losses for Americans. In a recent speech, he promised to take several steps if elected president: withdraw from the TPP, identify and remedy every violation of a trade agreement, renegotiate or withdraw from NAFTA, label China a currency manipulator, address unfair trade practices by China by invoking domestic and World Trade Organization (WTO) remedies, and impose tariff or other measures on China if it fails to comply.23 More specifically, he has threatened to impose tariffs of up to 45 per cent on Chinese imports and to punish US companies that relocate their manufacturing operations to other countries. When he was asked in an interview if WTO rules permitted this, he replied that he would renegotiate WTO membership or pull out because the ‘World Trade Organization is a disaster’.24

Closer scrutiny of several of Trump’s proposals, however, suggests a number of positions are similar to those taken by Clinton or the Obama administration. He has stated that ‘for free trade to bring prosperity to America, it must also be fair trade’, which is a concept drawn more from the Democratic Party agenda than the Republican playbook.25 Some of his policy proposals resemble key elements of Obama’s agenda and Clinton’s platform, including stricter enforcement of trade violations by China and other countries by using available WTO and domestic remedies. Like Clinton, Trump has expressed concern about Chinese currency manipulation. He has stated that China is ‘behaving very, very badly’ by devaluing its currency, and has promised that if he is elected president, ‘China will behave and China will be our friend’.26 Trump's concerns with NAFTA are reminiscent of calls by Clinton and Obama to improve the agreement, although he goes further by

20 Clinton (2016), ‘If elected president, I’ll level the playing field on global trade’.
threatening to withdraw from it. In this regard, however, it is possible that he does not know the degree to which the economies of Canada, Mexico and the United States are intertwined.

In reflecting traditionally Democratic concerns about free trade, Trump has contradicted both Republican orthodoxy and his own actions over the years. As one observer wrote recently, Trump’s ‘most substantive break with traditional Republican ideology ... has been his unremitting and unapologetic attack on free trade’. He goes on to say: ‘Protectionism was a staple of American politics in the nineteenth and early twentieth centuries, but in the postwar era support for free trade has been one of the bipartisan pillars of American economic policy.’

Trump, like Clinton, has been critical of the TPP, but he bases his concern on the possibility that China may try to enter the agreement later. He has described the TPP in harsh terms as:

... another disaster done and pushed by special interests who want to rape our country, just a continuing rape of our country. That’s what it is, too. It’s a harsh word – It’s a rape of our country. This is done by wealthy people that want to take advantage of us and that want to sign another partnership.

This offensive remark and bombastic approach to trade policy and negotiations make it unlikely that other countries will seek to engage seriously with him.

Trump’s corrective prescription for US trade policy is the negotiation of ‘great trade deals’ to bring jobs back, but he offers few specifics on how he would do that. One recommendation he has made is to return to an emphasis on tariffs rather than taxes. This notion was embraced in the early days of the republic in very different circumstances, and has been discredited since the devastating 1930 Smoot-Hawley Tariff Act. Such a prescription ignores the regressive impact that higher tariffs would have on American workers, especially poorer families, and would reinforce an already inequitable tax code. A recent report suggests that Trump’s ideas would also lead to a more isolated US economy and a lengthy recession. It cites in particular an expected rise in unemployment; decreased cross-border trade; investment, personal and corporate tax cuts; and a larger federal government deficit and debt load.

Trump’s views also reveal a serious credibility problem when he suggests that he is truly concerned about American jobs. One observer notes that ‘such declarations are at odds with Mr Trump’s long history as a businessman, in which he has been heavily — and proudly — reliant on foreign labour’, both to staff his operations in the United States and to outsource the manufacture of suits, ties and other products in China and other countries.

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International implications

The trade policies adopted by the United States under the next president will have a significant impact on the US and global economies. Actions in the coming year especially will signal to partners in Asia and Europe how the new administration will engage with them to address common economic and strategic challenges.

Whichever candidate wins, there will be a period of reflection in which current initiatives are reassessed and new ones developed. A tougher policy in terms of setting an even higher bar for bilateral and regional trade and investment agreements should be expected. Attention will be focused on which aspects of such agreements can lead to greater market-opening opportunities for US companies and workers, while advancing stronger labour protections and combating currency manipulation. Efforts by countries to adjust their currencies to gain an unfair competitive advantage – by making their exports less expensive than comparable goods from the United States – will need to be addressed. Additional resources will also be devoted to the enforcement of existing trade obligations, in particular to greater scrutiny of China’s actions, utilizing WTO and domestic remedies.

The TPP is likely to be one of the first issues that will need to be addressed, as the chance of Congress passing the agreement during its ‘lame duck’ session after the election appears increasingly slim. This has not deterred the Obama administration from starting to make its final push for ratification. There is always a chance that, if Clinton wins, and especially if Democrats gain control of the Senate, Republican leaders may suddenly become more interested in moving the agreement forward before the new president takes office in January, lest she put it on the back-burner or seek to radically renegotiate its terms. On the other hand, the Republican leadership may prefer to wait and watch an incoming Democratic administration struggle over what to do with the agreement, as different wings of the Democratic Party pull in opposite directions over trade. If Trump wins, even Republicans who do not support his more extreme views may be loath to buck a new president ostensibly from the same party.

Given that both candidates have made their opposition to the TPP crystal clear, the issue for the next president will be whether the concerns identified have any chance of being fixed. Some observers point to the precedent of the Obama administration, which addressed problems with the trade agreements with South Korea, Colombia and Panama that it had inherited from the Bush administration. But those were bilateral agreements, whereas the TPP involves 11 other countries whose negotiators already believe they have established their bottom lines and reached acceptable compromises. The pressure on the next president from supporters and opponents of the TPP will be intense. In addition to debate over the substance of the agreement, supporters will point to the risk of damage to US influence and credibility in Asia at an already difficult time when China feels emboldened. With regional tensions continuing to rise, and China forging ahead with the development of its own, less ambitious, regional trade agreement, the United States’ partners will view this issue as a litmus test of the next administration’s commitment to the Asia-Pacific region.

30 While some have suggested that the next vice-president, whether it is Mike Pence or Tim Kaine, may assert a more pro-trade influence on the next president, the fact is that key decisions are usually made by the person at the top of the ticket during the campaign and in office.
The next president will also have to address the fate of TTIP. While the United States and the European Commission have said they want to reach at least an agreement in principle this year, the chances of that happening appear slim too. Several significant issues are still outstanding, including agriculture, geographical indications, government procurement and investment. The negotiations have been complicated by the decision of the United Kingdom to leave the EU. In addition to losing that country’s strong voice in support of trade liberalization among the member states, the EU will have much of its internal focus over the coming months taken up by the possible terms of UK separation. Once the terms of ‘Brexit’ are clearer, the United States and the United Kingdom can discuss a bilateral trade agreement or, if TTIP is advancing, use that as a vehicle to cement both the US-UK and the US-EU partnerships.

More generally, a Clinton presidency is likely to focus on working within the rules and remedies afforded by the global trading system to achieve concrete gains for US workers and build a stronger, more secure middle class. As president, Trump would be much more unpredictable, but Americans must be ready for him to follow through on his more dire threats. Slapping tariffs of up to 45 per cent on China and Mexico can be expected, in the short term, to lead to higher consumer prices in the United States and retribution against US exports. Over the longer term, Trump’s policy would likely lead to ‘trade diversion’, as markets in Southeast Asia or Latin America with lower labour costs simply pick up the slack and substitute their own exports for goods that the United States had previously imported from China or Mexico. Several analysts have predicted that the result would be a slowdown in the US economy, with a ripple effect on the global economy.

More broadly, the next president will have to deal not just with developing a new trade policy that can attract greater public support than exists today, but also with the real causes of growing economic inequality and insecurity. In addition, he or she will have to address the concerns of a substantial number of voters who seem to favour a return to a more isolationist and protectionist ideology. Whether the issue is support for side-stepping NATO defence commitments, overlooking violations of human rights and international law or repudiating trade agreements, turning the clock back risks harm to US economic and security interests around the world for years to come.
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About the 2016 US Election Note series

The November 2016 US presidential and congressional elections are occurring at a time of change inside the United States and uncertainty in the world. How the next administration adapts to a host of international challenges will be central not only to the United States’ prosperity and security, but also, given its continuing global economic and political power, to the prosperity and security of countries across the world.

In the months before and after the elections there will be an enormous number of analyses and reports by US institutions and media on the future of foreign and domestic policy, targeted principally at US public and policy-making audiences. Drawing on Chatham House’s international reputation for informed and independent analysis, the US and the Americas Programme is publishing a series of Election Notes that look at US foreign policy from an external perspective. These research papers are intended to inform and be relevant to governments, businesses, NGOs, foundations and the broader public – both in the United States and in other countries.

Each paper will examine a major foreign policy issue, explaining the background, the relative positions of the main contenders for the White House, and the international implications of each candidate’s likely policies. These Election Notes do not just provide independent analysis of what the candidates say, but draw upon an understanding of their record in public life – if relevant – and of their domestic and foreign policy teams to offer a deeper and more rounded assessment of their likely approach to major foreign policy issues.

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