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Trump's Trade Policy: First International Consequences

Evita Schmieg

Donald Trump's election campaign and first hundred days in office were marked by abrasive rhetoric on trade, in particular blaming free trade agreements for causing economic suffering and unemployment in America. Countries that run large export surpluses with the United States, like Mexico, Germany and China, have drawn the greatest ire. Internationally this has provoked fears of trade wars and the end of the multilateral world trade order. Latin American countries, for whom the United States is a crucial trade partner, are especially concerned. So far, only some of the fears have realised. At the same time, efforts are under way across the world to reduce trade dependency on the United States.

In March 2017 US President Donald Trump published his *2017 Trade Policy Agenda and 2016 Annual Report*. A number of conclusions can be drawn for international politics.

Priorities of US Trade Policy

One central maxim of the Agenda is that national sovereignty is more important than trade policy, and US citizens should not be directly subject to decisions of the World Trade Organisation. In fact this has never been the case: WTO rulings can only be enforced through national legislation. But the hard edge to the wording underlines the fundamental prioritisation of national sovereignty over multilateral rulebooks. Indeed, aggressive bilateral trade policy represents a promising strategy for a country as important as the United States, which can assert its short-term economic interests more easily by that route than in multilateral contexts. But even the United States needs the protection of WTO membership to ensure that trade partners maintain stable and dependable tariffs. With that context in mind, there is hope that Washington's bark will be worse than its bite in the multilateral framework. That hope is nourished by the Administration's 2016 Annual Report, which was presented to Congress and adopted together with the trade strategy: In almost all the WTO negotiating areas mentioned in the report, the Administration says it intends to participate constructively in ongoing talks in

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Geneva in 2017. Aggressive rhetoric is largely confined to the issue of trade enforcement activities.

The priorities of Trump's trade agenda continue to include strict application of US trade legislation. Section 301 of the Trade Act of 1974 continues to permit the President to authorise "appropriate action" including retaliation, where US trade interests are infringed. And the President can apply this instrument relatively easily. According to the Trade Policy Agenda, the United States is not prepared to tolerate unfair trade practices, and has therefore for example imposed punitive tariffs against certain German steel exporters accused of price-dumping. Anti-dumping measures are permitted under WTO rules, but only if set procedural rules are observed.

The new Administration's Trade Policy Agenda also makes no bones about its intention to use all means available to open up markets to American businesses. Trump accuses America's trade partners of operating opaquely and violating market principles, and concludes that "it is time for a more aggressive approach". He also intends to take action against the large trade surpluses run by China, Germany and Mexico, by revising trade agreements or imposing punitive measures.

Other countries also criticise China and Germany for their large trade surpluses, which can cause external debt to expand on the other side and distort global competition. Bilateral responses, however, are neither economically rational nor permissible under WTO rules.

The guiding principles of the Trade Policy Agenda also include Trump's de-mand for new and better agreements ("deals"). The President is determined to assert US interests in bilateral agreements with its biggest trading partners. At one point he suggested bilateral talks with Germany (as are planned with the United Kingdom after Brexit). After it was pointed out that in the EU's trade policy is a matter for Brussels alone – absolutely excluding separate talks with Berlin – the idea of a transatlantic free trade area reappeared. It would need a new name, though, as "TTIP" has become a political liability on both sides of the Atlantic.

Concerned Latin America

So what does the US Trade Policy Agenda actually mean for its trading partners? Countries that are less politically and economically important to the United States can expect to be less affected. In the Caribbean these include Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, as well as the Dominican Republic, whose free trade agreement is viewed positively in Washington because here the export surplus is on the US side. Yet other US policies such as clamping down illegal migration could hit these countries hard, where remittances from migrants working in the United States often play an important role.

Mexico comes in for heavy criticism, both for its trade surplus and as a source of illegal migration. As an immediate neighbour, Mexico is heavily economically dependent on the United States, with bilateral trade amounting to about half its GDP figure. In addition, the 35 million US residents of Mexican extraction transfer $25 billion home each year. Trump's campaign threats initially caused the Mexican peso to fall significantly against the US dollar. Most prominently, Trump proposed building a wall on the Mexican border and funding it with a 20 percent levy on imported Mexican goods. He also said he would withdraw from NAFTA and in a couple of instances persuaded manufacturers not to move production abroad. Ironically, a falling exchange rate contradicts Trump's own intentions by making Mexican imports even more competitive, US exports to Mexico more expensive and deepening the US current account deficit. This certainly cannot be in the US interest.

However, taxes and duties on Mexican goods would also harm the US economy. Tightly integrated value chains connect industries on both sides, with Mexican firms for example supplying components to the

US car industry. This might explain why Trump's wild promises have not as yet been followed by action. Today the United States goes no further than saying it intends to renegotiate NAFTA. There would in fact be good reason to modernise the agreement, which dates from 1994. Canada and Mexico have both indicated their openness and are coordinating closely. But renegotiation means constructive talks rather than destructive punitive tariffs.

Cuba has also found itself at the receiving end of Trump's verbal outbursts. During the campaign he said he would close the recently reopened US embassy in Havana unless the government met his demands for the release of political prisoners and religious and political freedom for the Cuban people. It would be very easy to reverse Obama's moves to open up relations, most of which were based on executive orders that can be reversed at the stroke of a pen, rather than legislative acts. But US businesses and citizens benefit from the changes too: Texan farmers in particular export to Cuba, US airlines fly to Cuban destinations, AirBnB lists four thousand rentals on the island, and Cuban exiles have invested via their families in the small but growing private tourism sector. These developments have brought about a change in US public opinion towards Cuba. Today 75 percent of adult Americans support the reinstatement of diplomatic relations and two-thirds of Cuban exiles in Miami want the economic embargo lifted.

Growing Interest in Trade Cooperation without the United States

The risks presented by Trump's trade policies are leading other countries to seek more reliable partners. One notable instance is the developments following Washington's decision not to sign the already negotiated Trans-Pacific Partnership (TPP) with the Asian and Latin American countries around the Pacific. The countries of the Pacific Alliance (Chile, Colombia, Mexico and Peru) are relatively liberal on trade in Latin American terms and strongly engaged in trade with Asia; as such they are especially affected by the TPP debacle. In March 2017 they therefore invited the other TPP states (but not the United States) plus China, Colombia and South Korea to a conference, where the participants agreed to seek a comprehensive trade agreement. While the negotiations will take years and it remains uncertain what shape the outcome will take, the meeting itself is a visible sign of accelerating reorientation. The Pacific Alliance accounts for about one-third of Latin America's GNP and more than half of its world trade. Now it hopes to provide a platform for future free trade agreements.

Trump's trade policy is also spurring growing movement in the South American common market, Mercosur, which unites Argentina, Brazil, Paraguay and Uruguay (Venezuela's membership is presently suspended). The presidents of Argentina and Brazil, Mauricio Macri and Michel Temer, have agreed to inject a "historical dynamism" into Mercosur and even Chile in interested in partnership. However, the latest political developments in Brazil put the dampers on hopes for rapid change. Until that juncture this trade group had anyway been in a rather lamentable state for years. Additionally, talks between Mercosur and the Pacific Alliance about closer cooperation up to and including the possibility of establishing a free trade area began in April 2017.

Trump's Trade Agenda Changes Geopolitics

As the strongest economic power, the United States would have been able to use TPP and TTIP to expand and consolidate its dominant position as a trade and investment hub. This prospect would have raised grounds for concern in Europe, and further heightened interest in a European agreement with Asia. Now Trump's inward turn has once again transformed the international trade environment. After the failure of TPP, Latin American countries have taken the initiative themselves to enhance

their integration with Asia. China, after being marginalised in the TTIP/TPP context, has received a new chance to offer itself as a reliable economic partner. Beijing demonstrated its intention to grasp this opportunity at the World Economic Forum in Davos this January, where it advocated against protectionist tendencies and for a multilateral trade system. China has also concretised its interest in this new role with visits by high-ranking representatives to Latin America (and elsewhere) and not least in its decision to seek free trade agreements in the Latin America/Pacific region. China has set itself the target of expanding trade with Latin American to $500 billion yearly by 2025 and expanding its direct investment there to $250 billion in sum.

But Trump's inward turn also makes Europe more attractive to other partners, after a decade of financial and economic crisis. This could for example give an additional boost to the negotiations for a free trade agreement with Mercosur (without Venezuela). These started long ago, but were suspended from 2012 to 2016. The objective is a comprehensive agreement not only to reduce tariffs, but also to address issues such as technical barriers to trade, services and public procurement.

Relations between the European Union and Cuba were already set to intensify through the cooperation agreement of 2016. On account of Cuba's geographical, historical and political situation (first and foremost the US embargo), Europe is an important trade partner. Europe should throw its political weight behind dialogue to strengthen European values and principles such as democracy, human rights and (also economic) participation.

If President Trump's abrasive trade policy ends up persuading the rest of the world to cooperate better with one another, the threat of trade wars and punitive tariffs might actually do some good too, at least in the long term. The EU now has a chance to consolidate its economic and political position through closer cooperation with Latin American and also Asian states. Hopefully it will grasp this opportunity. Donald Trump's presidency – together with the UK's Brexit decision – is certainly (and gratifyingly) reviving public appreciation of the European project.

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