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Whither Trump trade policy?

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Trade policy in the United States is determined by both the Administration and the Congress. There are already signs the Republican dominated Senate and House of Representatives do not favour some of the key measures in the Trump trade policy.

The Trump trade priorities taken to the election were:

1. Cancel the Trans Pacific Partnership Agreement (TPP)
2. Revise or replace the North American Free Trade Agreement (NAFTA) between the US, Canada and Mexico.
3. Introduce Border Tax Adjustment and tax imports but not exports.
4. Pressure China to stop underpricing steel and rigging financial and currency rates.
5. Only negotiate bilateral Free Trade Agreements (FTAs).
6. Disregard the rules and provisions in World Trade Organization agreements
7. Support free trade if it was "Fair Trade".

These measures were seen as radical by most of the US's trading partners. However those requiring legislation to implement must also be supported by the US Congress. This requirement was legislated many years ago. For example, appointment of the US Special Trade Representative (USTR) who is responsible for negotiating US trade agreements requires Congressional approval.

The suite of Trump trade policies which require Congressional enactment is unlikely to be fully adopted. The Republican leadership in both the House of Representatives and the Senate is not on Trump's wavelength on some critical issues. While President Trump has withdrawn the draft TPP Treaty, Congressional leadership has indicated unofficially Congress might reconsider it after the next elections for the House of Representatives in two years time.

The Administration is likely to face difficulty implementing other trade policies. The nominee for USTR, Robert Lighthizer, is still awaiting approval by the Congress. Yet other new officials appear to want to rush. The Commerce Secretary, Wilbur Ross, informed Congress he would initiate review of the NAFTA Treaty quickly. He was reminded Congressional rules required 90 days of advanced notice of such steps.

An appointee to a new position on trade policy in the White House, Peter Navarro, who advised Trump on trade policy during the election campaign, has proposed that the US in future should require trading partners to balance their trade with the US.



This has drawn a sceptical response from Senator Orrin Hatch, Chair of the powerful Senate Finance Committee which approves US trade law. Navarro has also been criticised for being 'technically uninformed' by trade experts and economists for proposing measures, particularly relating to Chinese trade policy, which he contends is 'unfair'.

The idea of border tax adjustment (where imports would be taxed, but exports not) while supported by Paul Ryan, Speaker of the US House of Representatives and former chair of the Ways and Means Committee (responsible for trade policy) in the House of Representatives, is not necessarily supported in the Senate.

While Congress is likely to check some of the more eccentric Trump trade policies, it is clear the Administration will surrender the key role the US has played in the last four years promoting liberalisation of trade and investment in the Asian Pacific region. The primary outcome was to have been the Trans Pacific Partnership (TPP) Free Trade Agreement.

It embodied a strategy to promote trade in services and foreign investment among a dozen Asian Pacific economies. With tariffs now low in most areas (agriculture is the main exception) opening of markets for services and removing barriers to investment to boost growth in Asia and the Pacific is now the strategic role of trade policy.

Perhaps the most important short term feature of the TPP was that it effectively embodied of a defacto FTA between the US and Japan. In the longer term, it was also being seen as the foundation for developing an FTA embracing all members of APEC. APEC has just completed a two year review to assess what is necessary to move to that step.

The singular importance of this would have been in expansion of the TPP agreement over time to include China, presuming it would over time further liberalise investment and its services sectors.

Trump trade policy puts this strategy into abeyance. It turns US trade policy inward. As presented, the focus is to increase production in the US. Some economists consider the Trump proposals measures might expand US GDP in the short term, but at the cost of diminished competitiveness, particularly in manufacturing.

The Trump trade policy as presented is unlikely to succeed in many of its aspects. There are those who will declare it is reversion to protectionism. It is in part. However the next proposition which commonly follows – that this will encourage protectionism elsewhere and reverse the open global trading system created by the WTO



agreements and other regional and bilateral FTAs - ignores a very important point which is little recognised.

The WTO and the better FTAs which draw heavily on the basic tenets of WTO policy lay down possibly the largest web of international black letter law in the world. The legal obligation to follow WTO rules which are designed to contain protectionism is accepted by all major traders. This is why it was so important that China joined the WTO. As one of the largest trading nations in the world, its flood of low price products could have caused mayhem in global markets had it not voluntarily sought membership of the WTO and accepted the legally binding obligation to trade according to WTO rules and precepts.

This is even recognised by the Trump trade policy reactionaries. After initially toying with the idea of disregarding the rules of the WTO, the Trump trade policy platform instead advocates avoiding recourse to WTO disputes procedures.

None of this will be challenged in a hurry. Trade policy is in fact a lower order issue in US public policy as debate about changes to Obamacare show. However, US business which understands the implication of Trump trade policy will set to seek to return to the status quo ante. But this will not be early in the Trump term.

As well, Trump trade policy will evolve as the President discovers, as predecessors did, that collaboration over trade and finance policy, including with China, is a necessary element of participation in the global economy. There will be calls for US leadership here. Meantime, those APEC economies which had negotiated the terms of the TPP will come to realise the prospective benefits of adjusting domestic policy to enhance economic growth to which they were willing to subscribe through accession to the TPP can still be won if they adopt those measures unilaterally in domestic policy.