US trade policy in the age of Trump: What role for Europe in the "New Nationalism"?

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A year ago[1] the United States had just elected in Donald Trump a Republican president whose hostility to business-as-usual in trade policy helped propel him to victory over his Democratic rival, Hillary Clinton. In the new President's view, the economic pillar of the liberal international order – the World Trade Organization (WTO) and trade agreements like the North American Free Trade Agreement (NAFTA) and the proposed Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) – was not a generator of US prosperity and a multiplier of its national interest. Rather, these institutions and agreements had sapped US manufacturing prowess, encroached on its sovereignty, and allowed countries like China to unfairly dominate world trade.

As president, Donald Trump has not made good on his most disruptive proposals, such as placing punitive tariffs of up to 45% on Chinese and Mexican goods, or withdrawing from NAFTA or the WTO. He did pull out of the TPP his first week in office, but since it had not been ratified by US Congress that move closed off a route to update the rules of the world trading system but did not necessarily push it backwards. His administration has launched two separate investigations into foreign trading practices: one, under the 1962 Trade Expansion Act, on whether imports of steel and aluminum threaten US national security, the other, under the section 301 provisions of a 1974 US trade law, concerning Chinese intellectual property violations. But so far neither has led to any concrete actions by the White House. The US has also blocked appointments to the appellate body of the WTO's dispute resolution mechanism, but here the current administration is not staking out new territory so much as sharpening a challenge to the WTO's powers begun under the Obama administration.

The real test of the Trump administration's trade policy – and the one that has most bearing on the European Union – is to be found in its approach to the NAFTA renegotiations that were launched in August and are slated to conclude by April 2018. In the four rounds of talks to date, US negotiators have made a number of proposals that both break with previous US policy and are economically unorthodox. Most broadly, the US wants to rewrite NAFTA so that it reduces the country's trade deficit with Mexico, which is seen to be a cause of US job losses. One vehicle for accomplishing this goal would be through the rules of origin chapter, where the Trump White House wants a minimum 50 percent US content requirement for automobiles imported from Canada and Mexico in order to qualify for favorable tariff treatment. The US also wants a sunset clause that would end NAFTA after five years unless all three parties agree to continue it.

All of these proposals are problematic. The US trade deficit is a global, not a bilateral, phenomenon that arises mainly from its shortfall in national savings *vis-à-vis* investment. It cannot be remedied by changing NAFTA, which rather than being a drag on the US economy has made the US a more competitive export platform through the availability of lower-cost imports from Mexico. And a sunset clause, entailing as it would the prospect of the US pulling out of NAFTA, would introduce uncertainty to long-term business investment.

[1] See http://www.epc.eu/documents/uploads/pub_7092_presidentialcampaign.pdf

Like the two NAFTA countries, the EU is a major trading partner of the US, and like Canada the EU is an advanced economy. So what happens in NAFTA is a good guide to how the Trump administration would approach a trade negotiation with the EU. And clearly one avenue for the EU to engage with the US is to revive the stalled TTIP negotiations, perhaps under a new name and with new content. It is true that candidate Trump did not make any references to the transatlantic talks during the campaign. It is also true that both US Secretary of Commerce Wilbur Ross and US Trade Representative Robert Lighthizer have made broadly positive comments about the idea of a trade agreement with the EU. At the same time, the president earlier this year made critical comments about the large trade surplus that Germany maintains with the US. The EU overall also has a surplus with the US, so if the NAFTA talks are any indicator TTIP 2.0 could also become a way for the US to try to right the trade scales in its favour.

There is another, more auspicious, way for the EU and the US to build cooperation on trade. While waiting to see what the NAFTA renegotiations ultimately yield, there are several discrete policy areas where overlapping interests could provide the basis for case-by-case policy cooperation. All these issues either directly or indirectly involve China. Whether it is the screening of foreign investment, China's non-market economy status in the WTO, intellectual property, trade defense instruments like anti-dumping and countervailing duties, or the role of state-owned enterprises in international trade, the US and EU would benefit from coordinating their approaches rather than going at it alone. Even a US administration that tends to see a negotiation as a zero-sum game may understand that there can be a US-EU win-win from cooperating on common external challenges.

It takes two to tango. On the US side, the administration will need to move beyond a focus on eliminating unfairness that it believes is built into existing trade arrangements (NAFTA, the WTO, the US-Korea Free Trade Agreement) to a more forward-looking approach that considers opportunities to shape the international economy to the benefit of the US and its like-minded trading partners. The EU, for its part, will need to overcome any hesitations it has about cooperating with a US administration that does not appear to share its core trade-policy convictions. In the long run, however, if the multilateralism to which the EU professes allegiance is to become more than just a slogan, short-term cooperation on the nuts and bolts of trade policy with the US will need to be part of the order of the day.

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