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What should be the future direction of United States trade policy?

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Outline

- US Trade Policy Past
  - Policy
  - Performance
- US Trade Policy Future
  - Without Trump
  - With Trump
    - Addressing the trade deficit
    - Renegotiating NAFTA
    - Other

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US Trade Policy Past

- US Leadership since World War II
  - Rounds of multilateral tariff reductions
  - Discipline on nontariff barriers
  - Expanded coverage to
    - Services
    - Intellectual Property
  - All done through GATT, then WTO

WORLD TRADE ORGANIZATION

US Trade Policy Past

- International Rule of Law
  - GATT/WTO agreed rules for uses of trade policies
    - Enforced through sanctioned retaliation
  - Rules permitted "trade remedies," but constrained their use
    - Safeguards tariffs
    - Anti-dumping duties
    - Countervailing duties (against subsidies)

US Trade Policy Past

- Regional trade agreements
  - EU was pioneer with customs union
    - 6-country EEC grew to 28-country EU (soon 27)
  - US resisted, but then negotiated
    - US-Canada FTA 1989
    - NAFTA 1994
  - Many others followed, mostly with FTAs

FTAs

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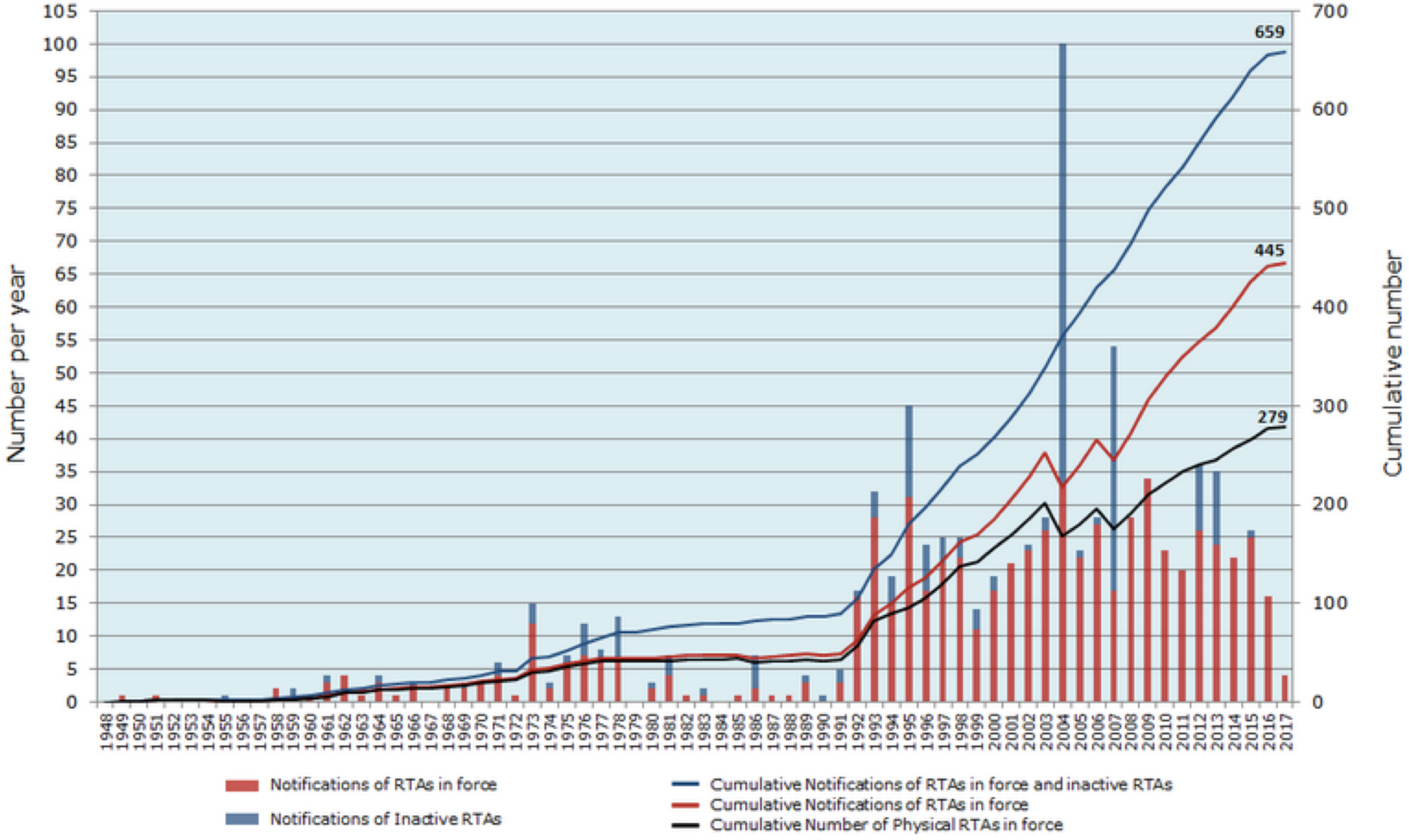
Evolution of Regional Trade Agreements in the world, 1948-2017



US GDP & Trade

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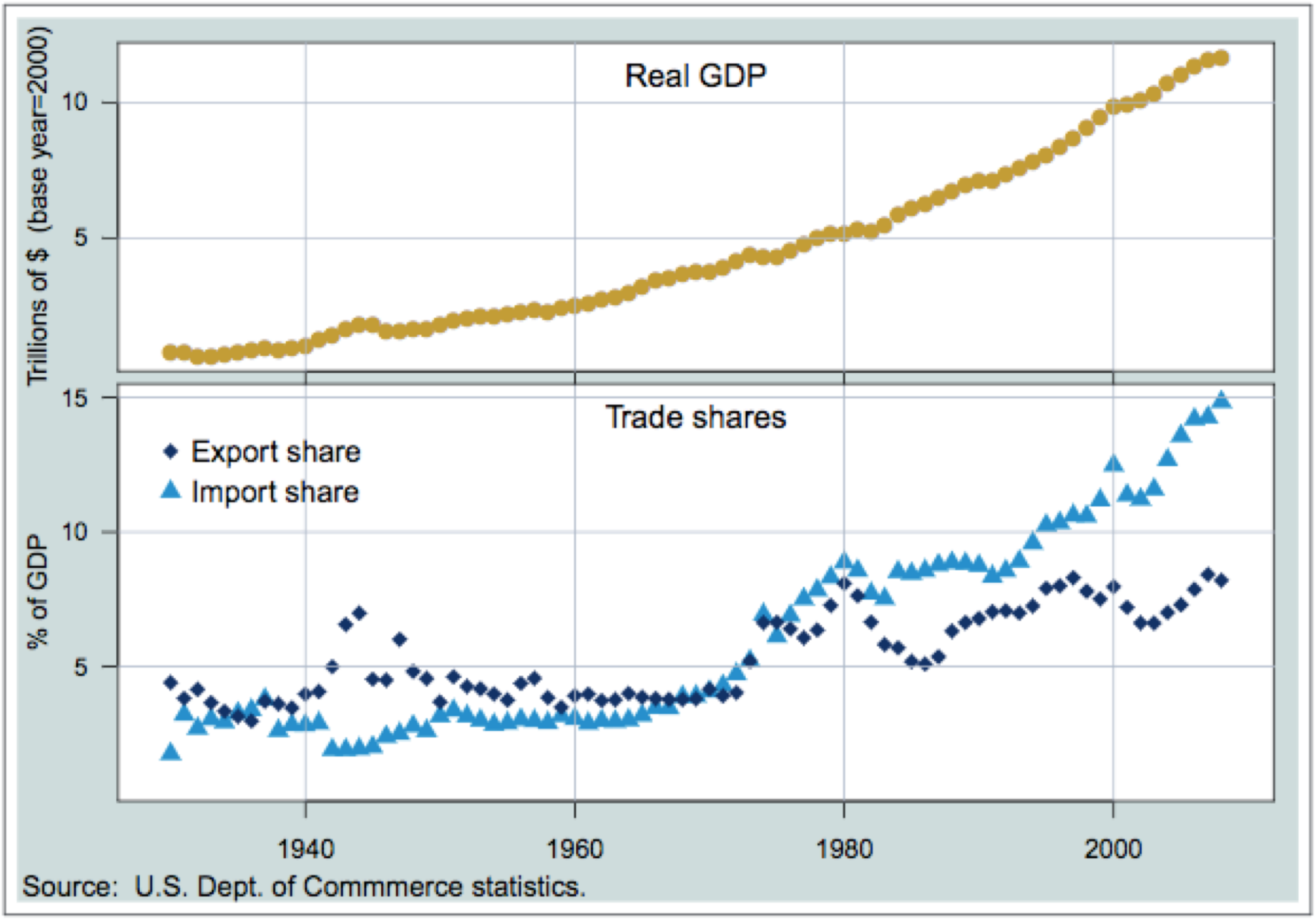

US Tariffs

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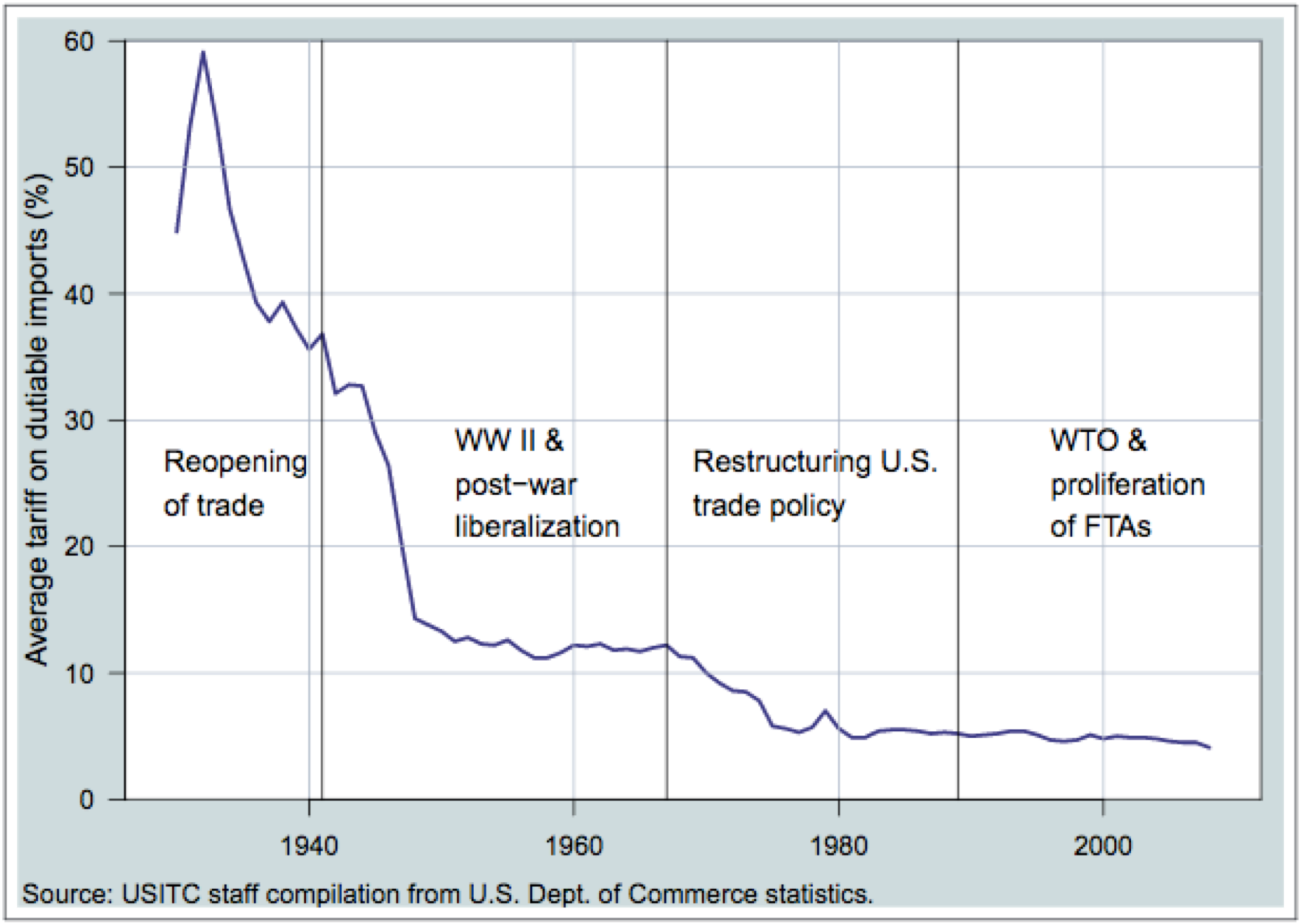

US Manufacturing Employment

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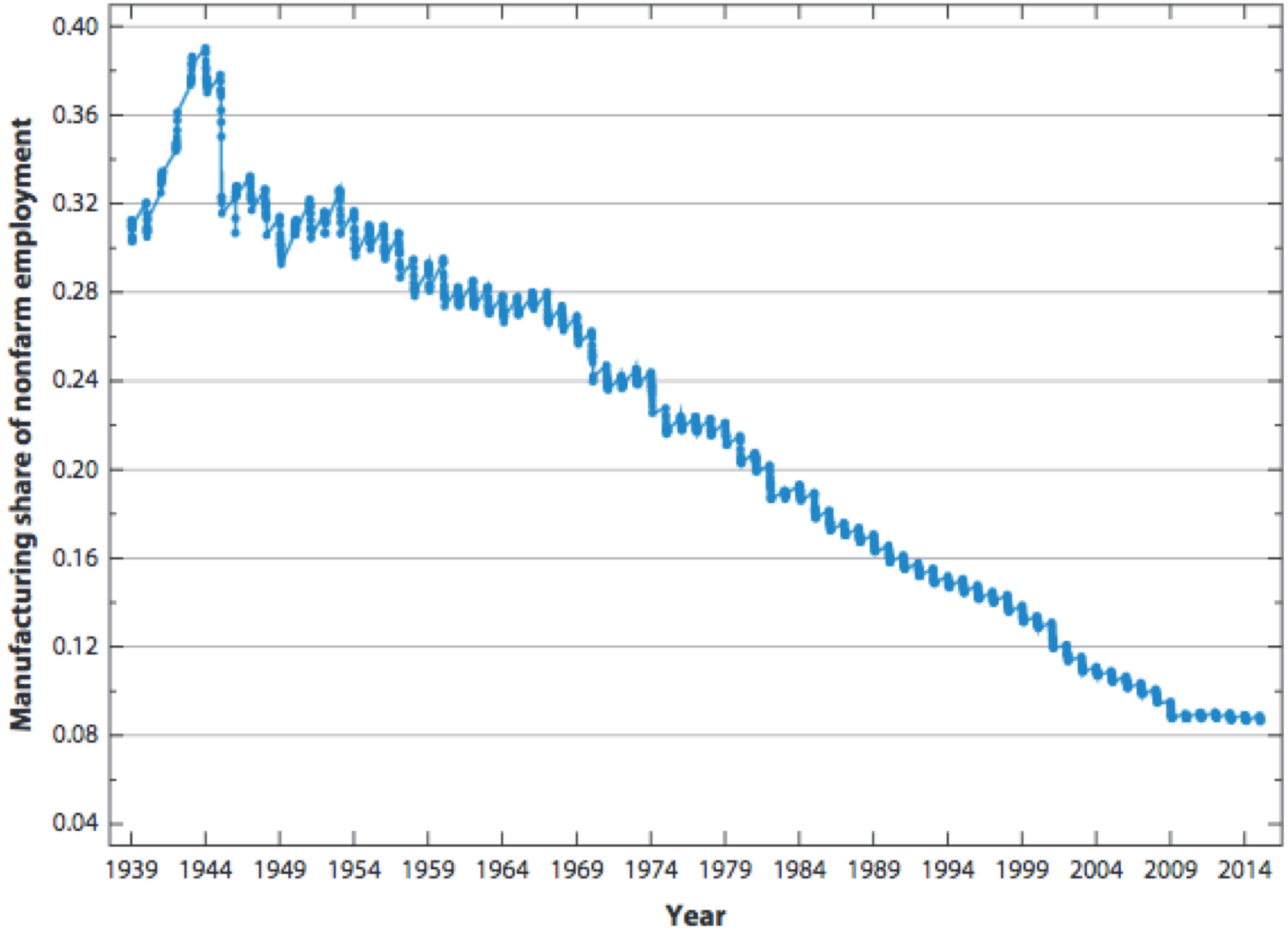

US Manufacturing Output

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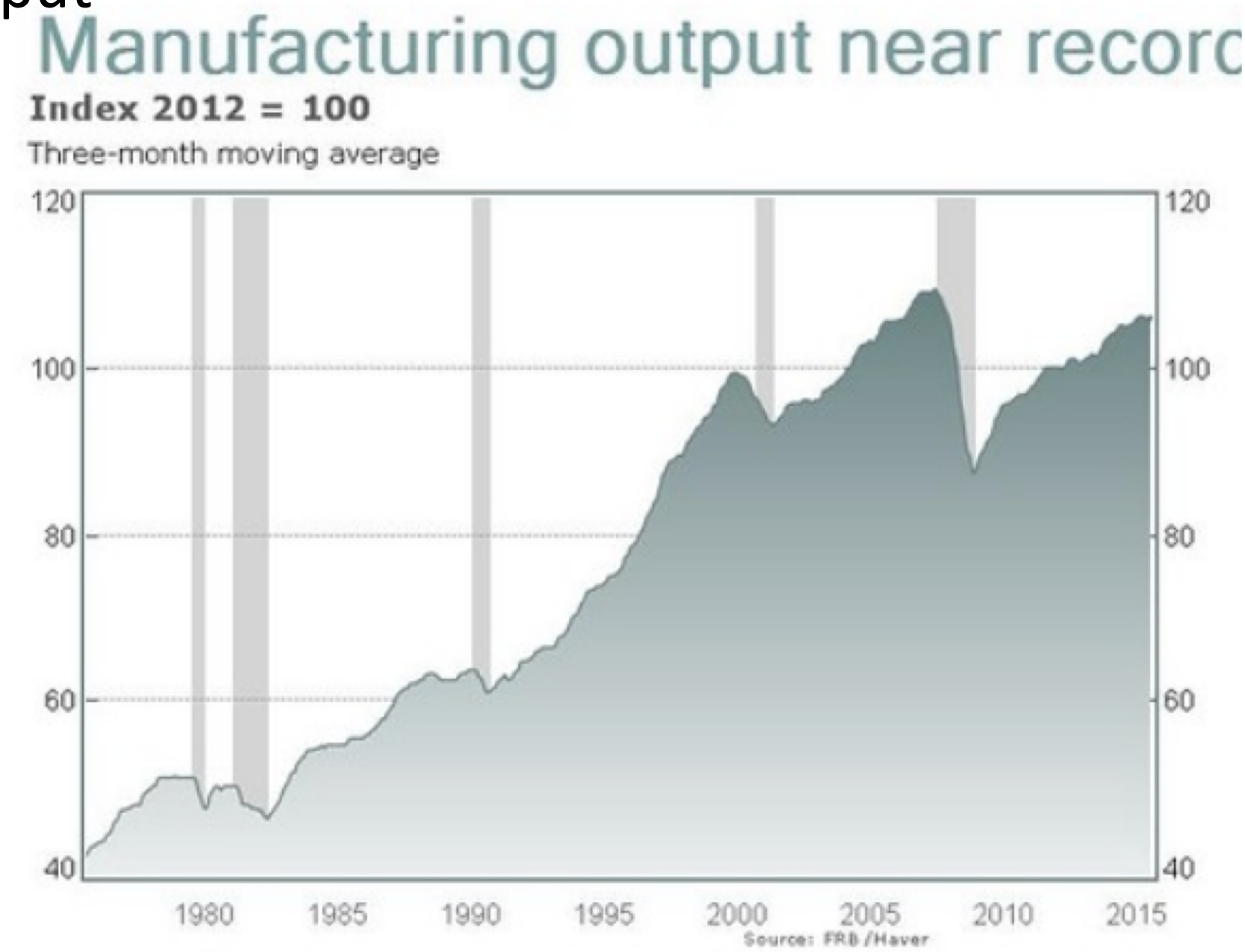
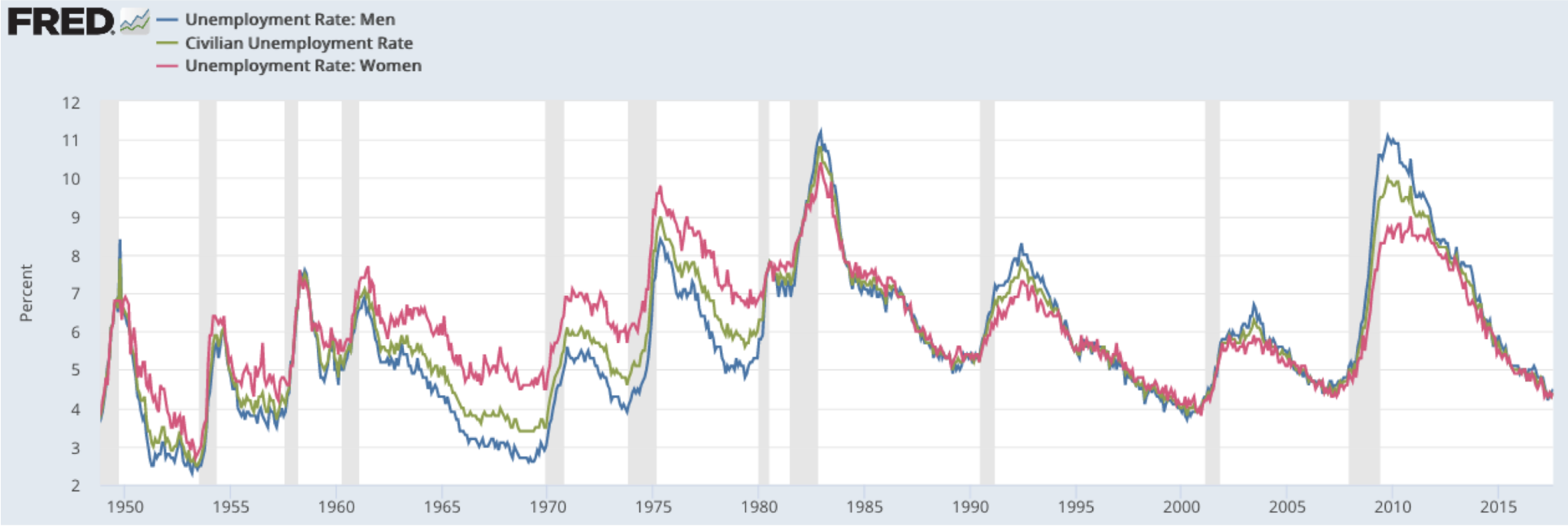


US Unemployment



US Labor Force Participation

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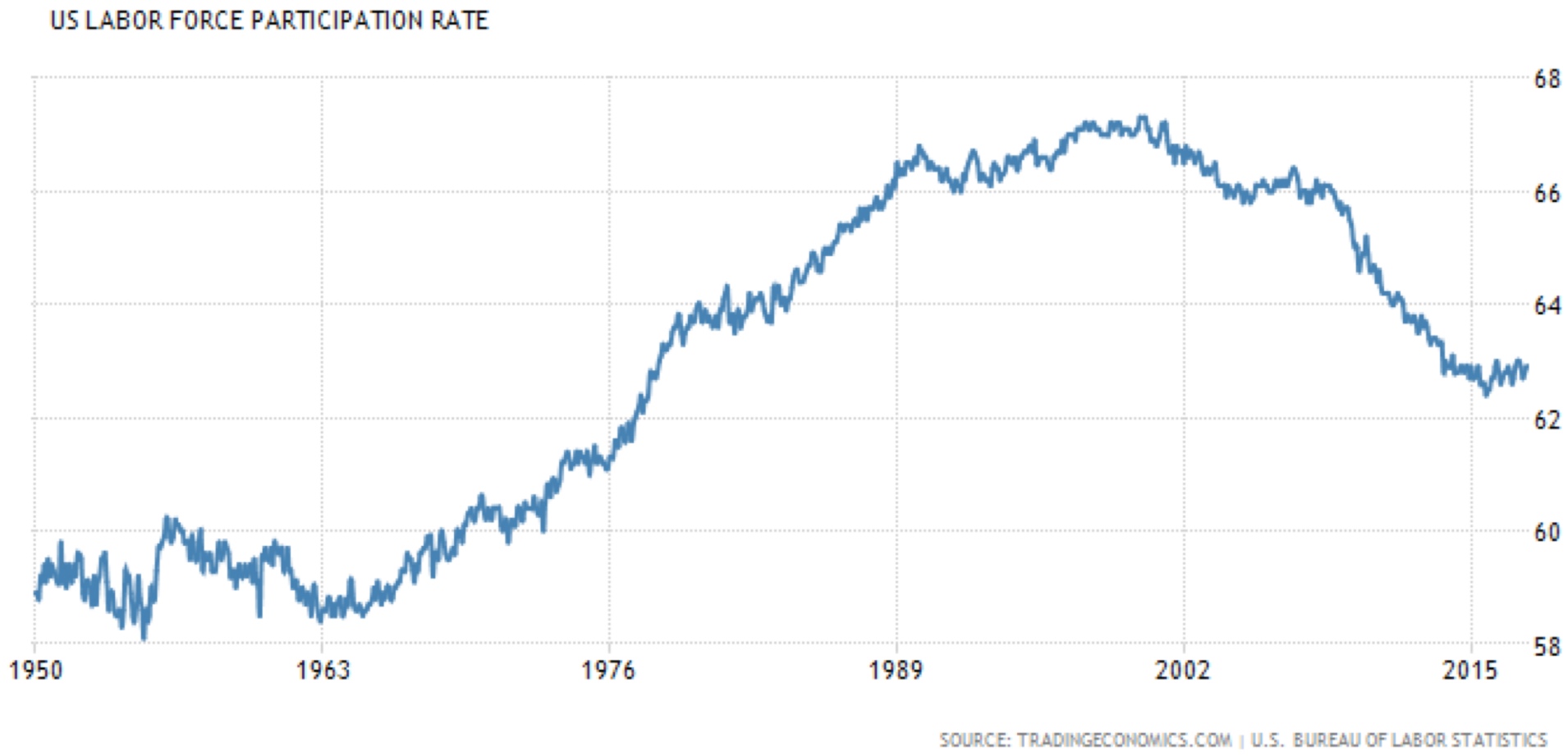
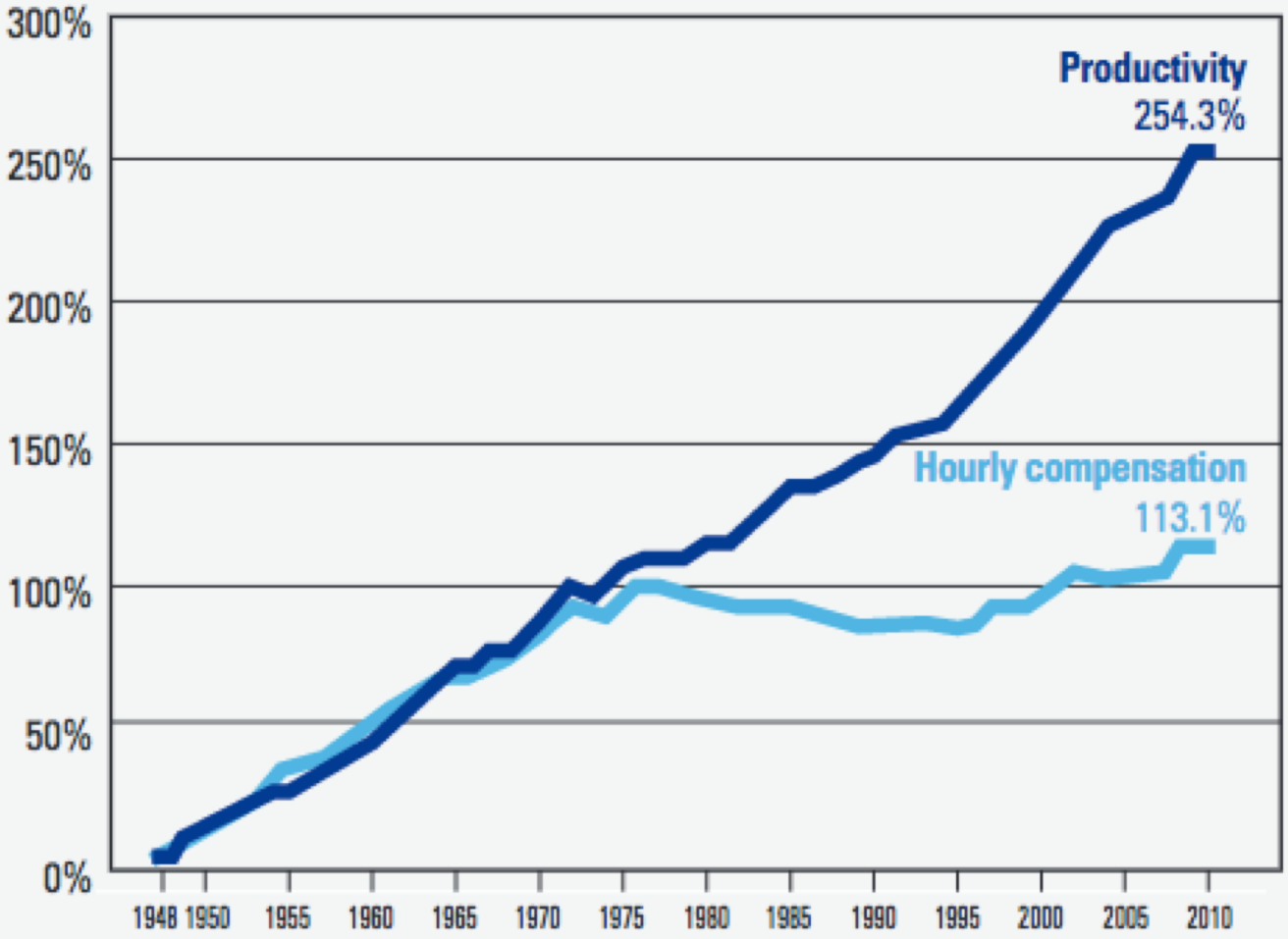


Growth of Real Hourly Compensation for Production/Nonsupervisory Workers and Productivity, 1948–2011



Despite growth in productivity, wages in the United States have remained stagnant.

US Unions

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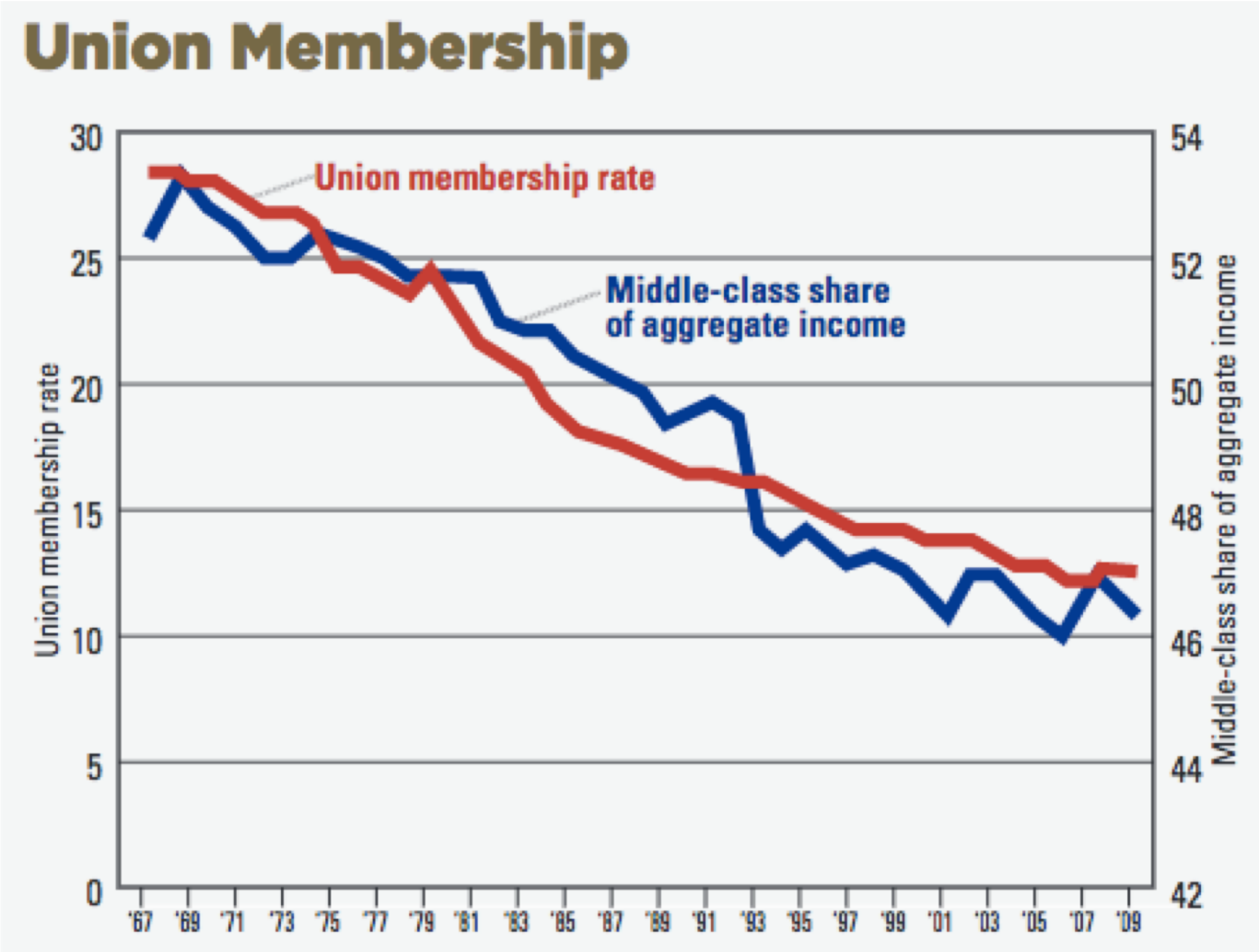

China manufacturing

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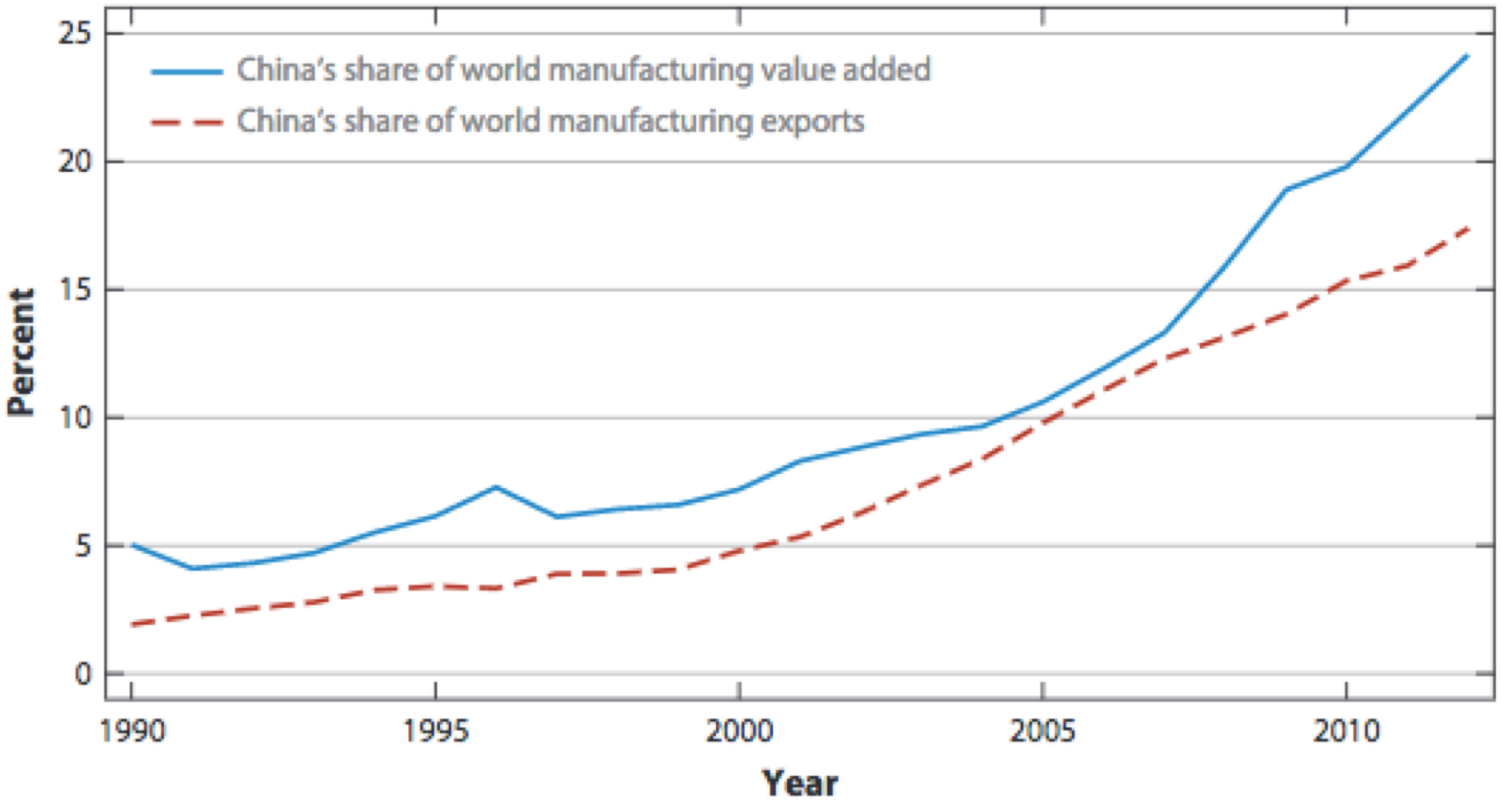
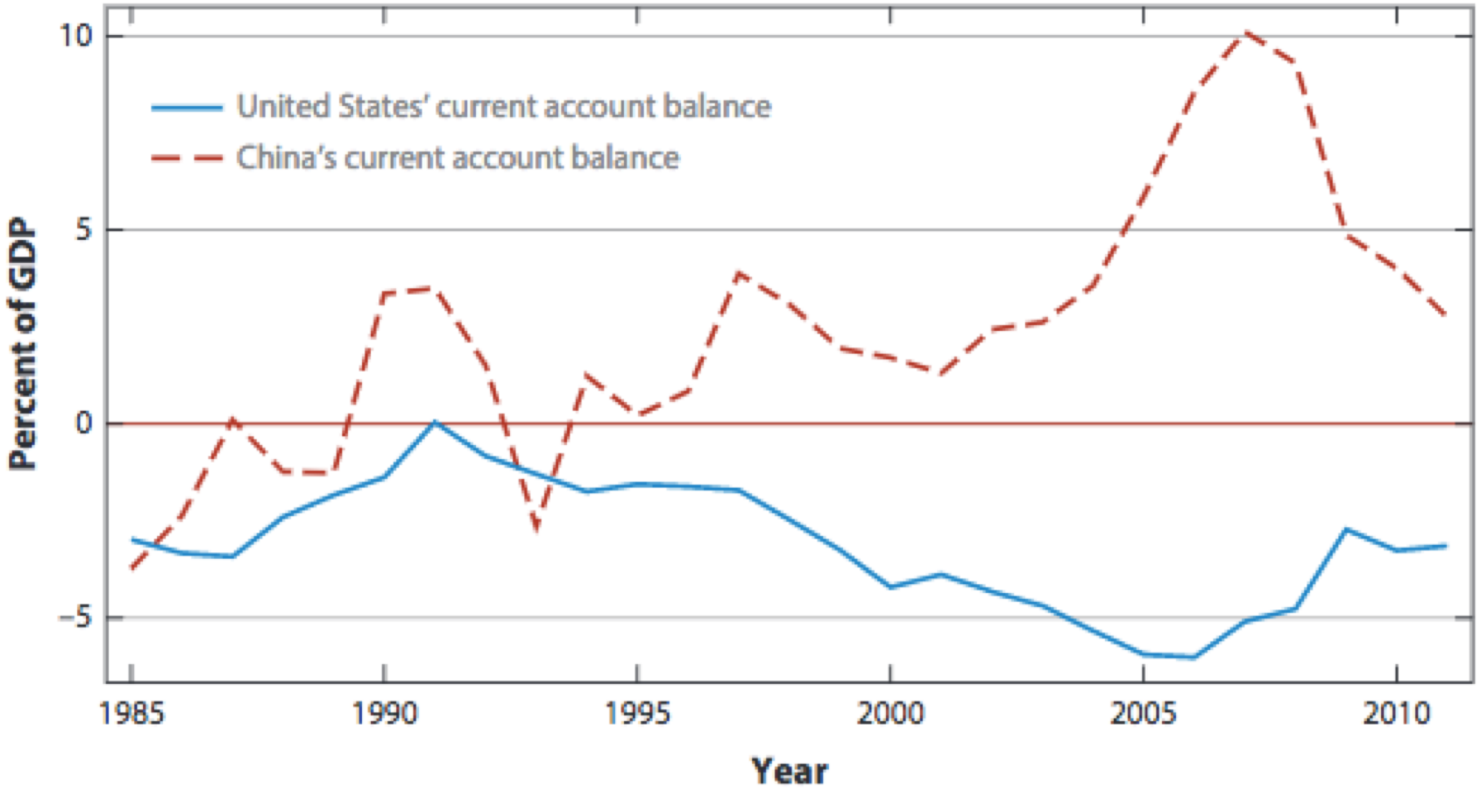
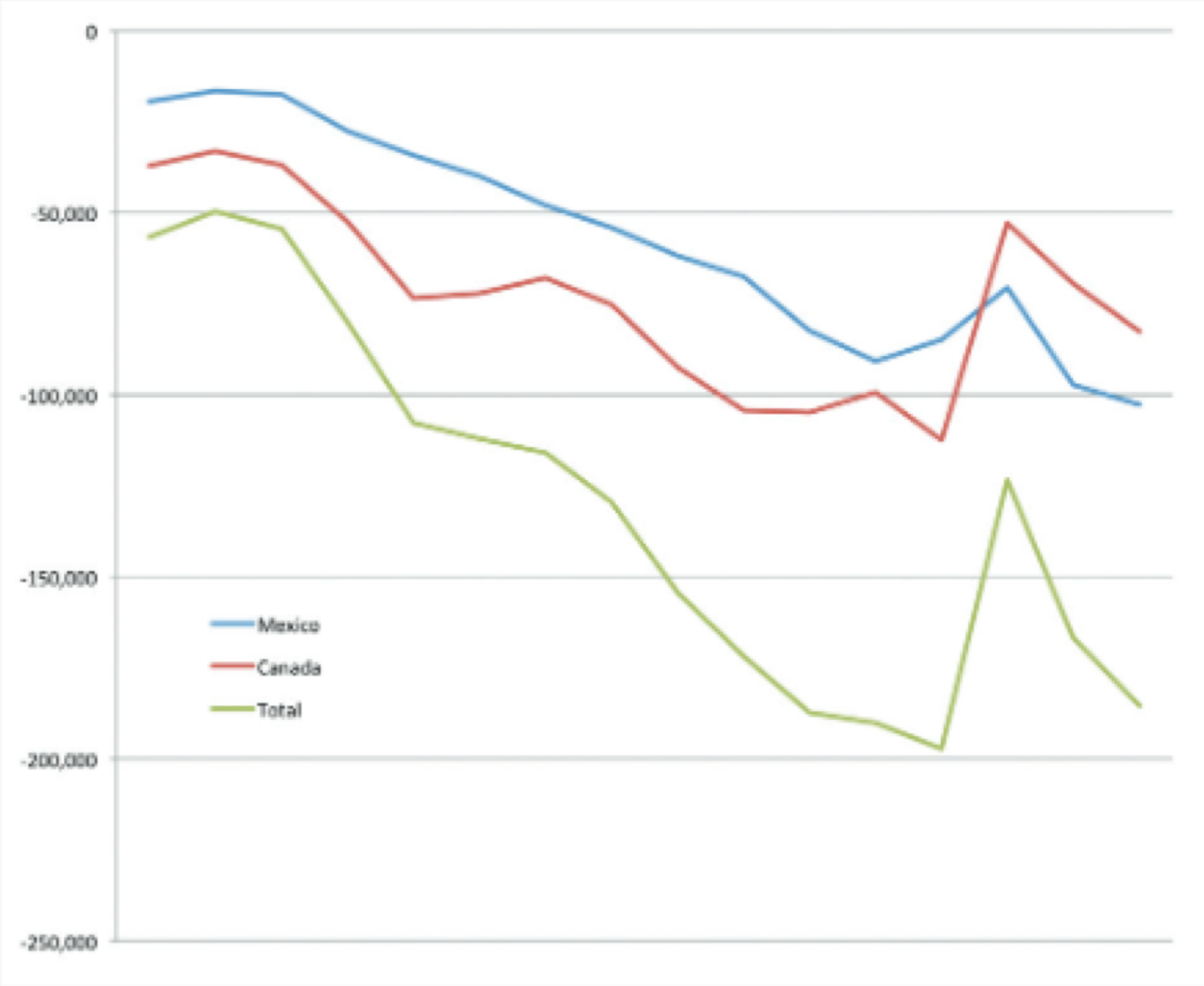


US and China Current Account Balances



Trade Deficits with NAFTA Countries, 1996–2011 (USITC Dataweb)



U.S. trade deficits increased after NAFTA came into effect.

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US Trade Policy Future: Without Trump

- More multilateral liberalization?
  - No.
  - Attempt of Doha Round failed

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US Trade Policy Future: Without Trump

- More regional agreements?
  - Yes
  - Trans-Pacific Partnership (12 countries)
  - Trans-Atlantic Trade and Investment Partnership (US and EU)

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US Trade Policy Future: Without Trump

- Continued support for World Trade Organization
  - US would take its disputes to the WTO
  - US would work with other WTO members to advance the cause of trade with smaller agreements

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US Trade Policy Future: Without Trump

- Continued use of WTO-permitted trade remedies ("trade law enforcement")
  - Safeguards tariffs
    - Against imports causing injury
  - Anti-dumping duties
    - Against imports "unfairly priced"
  - Countervailing duties
    - Against subsidized imports

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Trump Trade Policy: Trade Deficits

- First priority: Reduce US trade deficits
  - Overall trade deficit with the world
  - Bilateral trade deficits with China, Mexico, Canada, etc.
  - Trump blames trade agreements (NAFTA, WTO) for being unfair to US and causing these deficits
  - Says that deficits, in turn, cost US jobs

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Trump Trade Policy: Trade Deficits

- Can he reduce US trade deficits?
  - No! Not with tariffs or trade restrictions.
  - Overall trade deficit equals
    - Imports minus exports
    - What we buy minus what we produce
    - Spending minus income
  - No trade agreement (or trade policy) will change the fact that the US spends more than its income

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Trump Trade Policy: Trade Deficits

- Bilateral trade deficits with individual countries?
  - Yes, perhaps.
  - The sum of all bilateral deficits must equal the total, and that won't change, unless it reduces US spending
  - But policies can re-direct our imports from one country to another
  - Example, if we cut our imports from Mexico, we'll buy that much more from someone else (China?)

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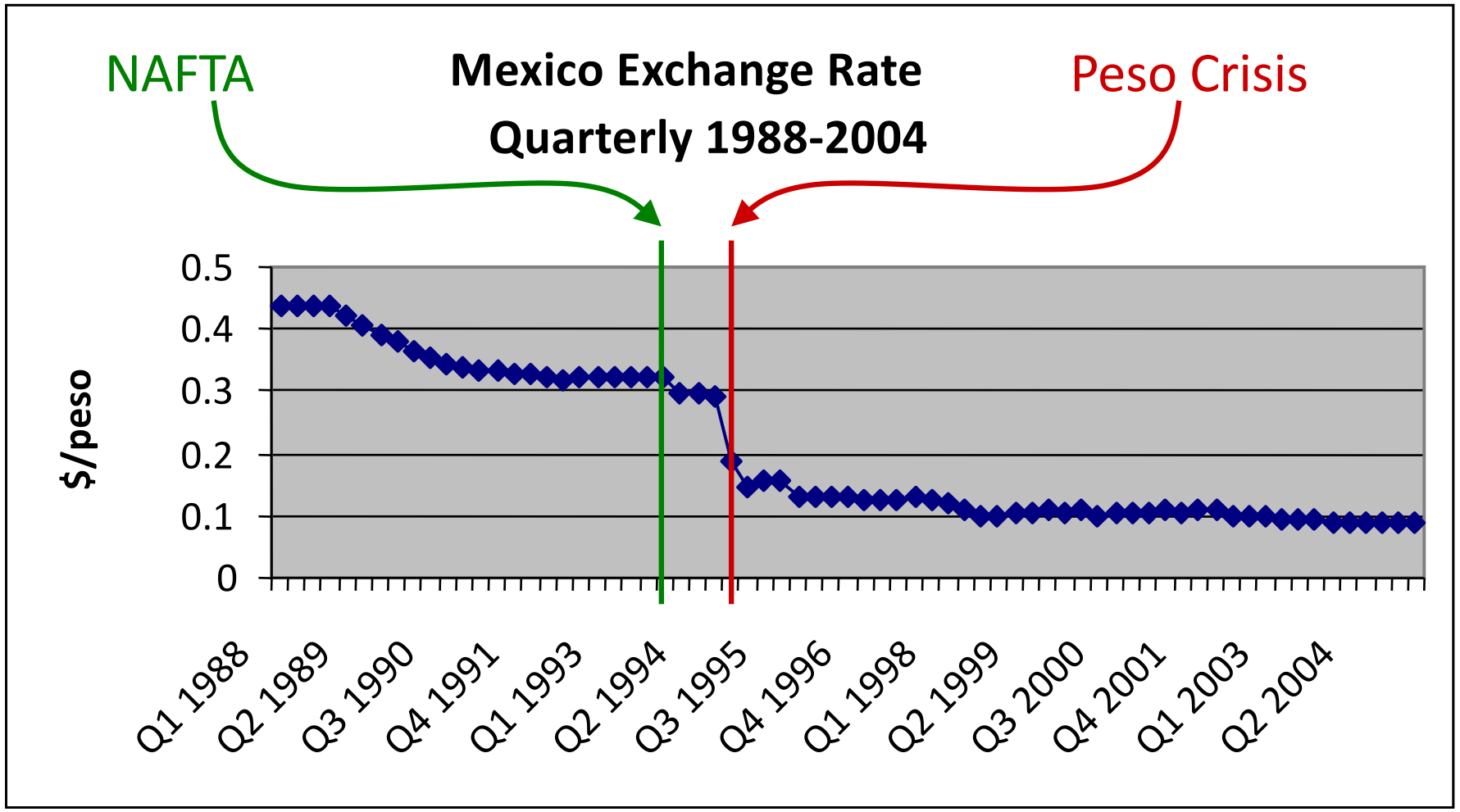
Trump Trade Policy: NAFTA

- Trump called NAFTA: "The single worst trade deal ever approved in this country"
  - Was it?

NAFTA – What Happened

Peso Dropped One Year After



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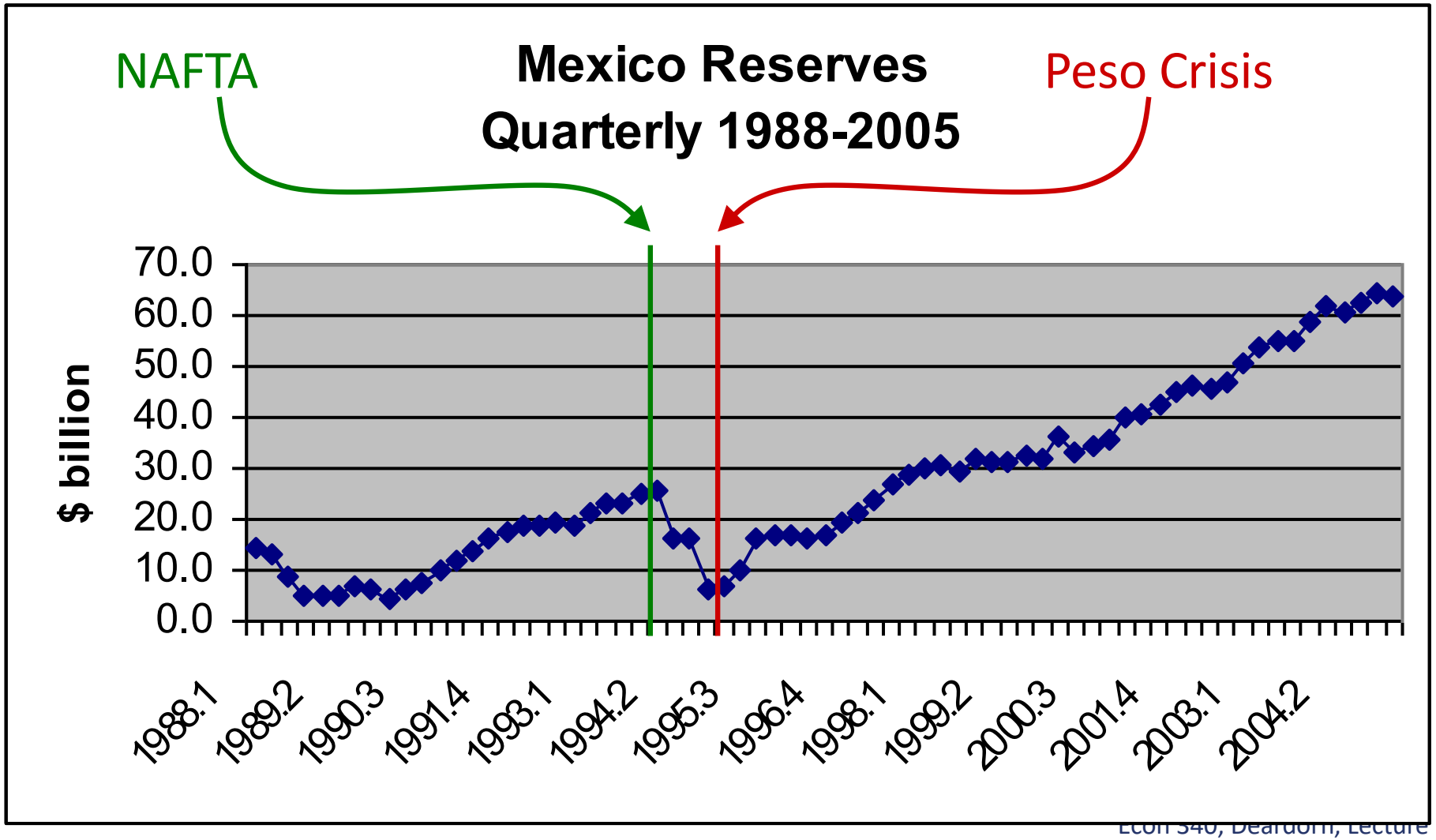
NAFTA: What Happened - Mexico Reserves Dropped at Once



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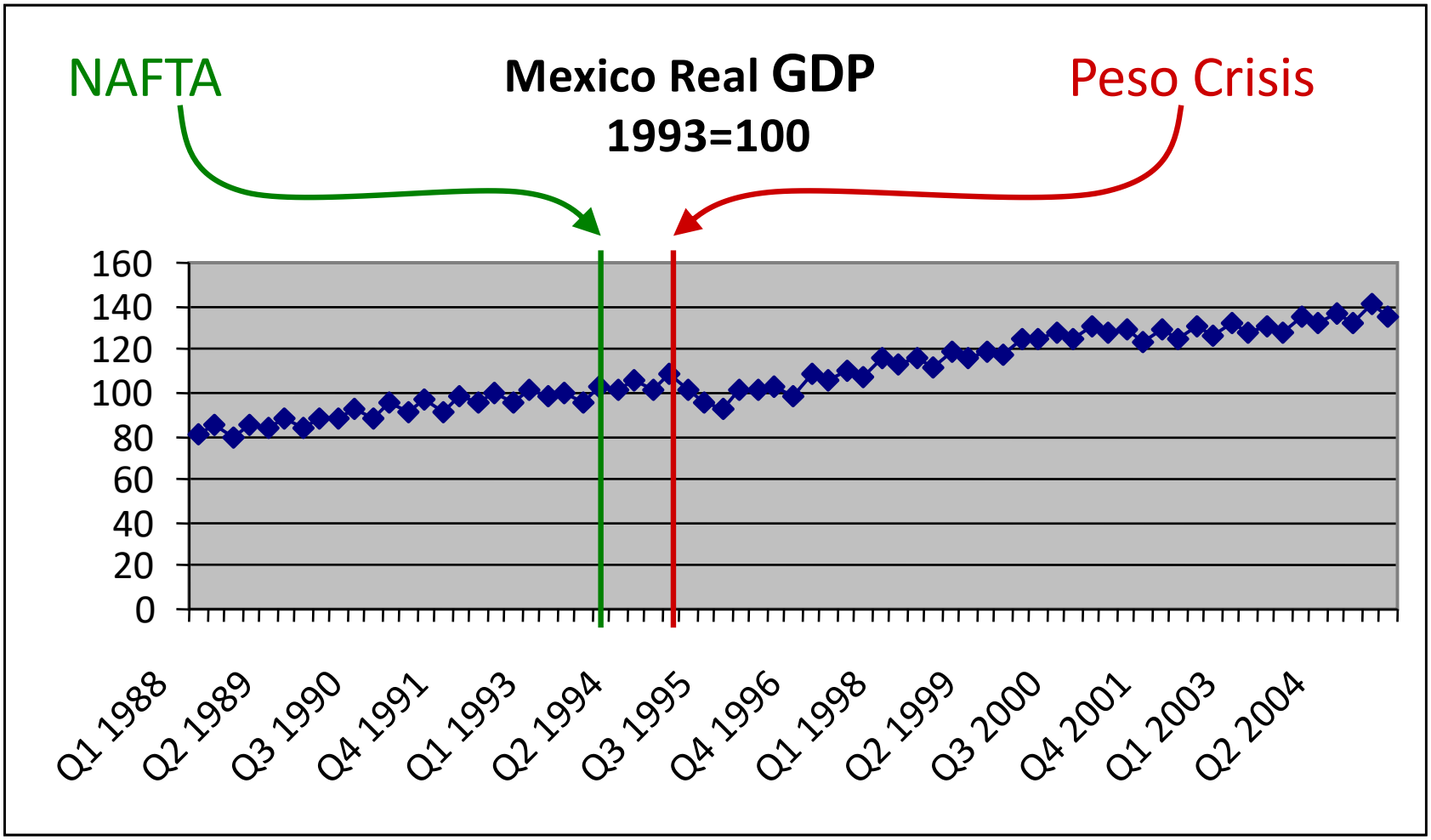
NAFTA: What Happened - Mexico GDP Fell after Peso Crisis



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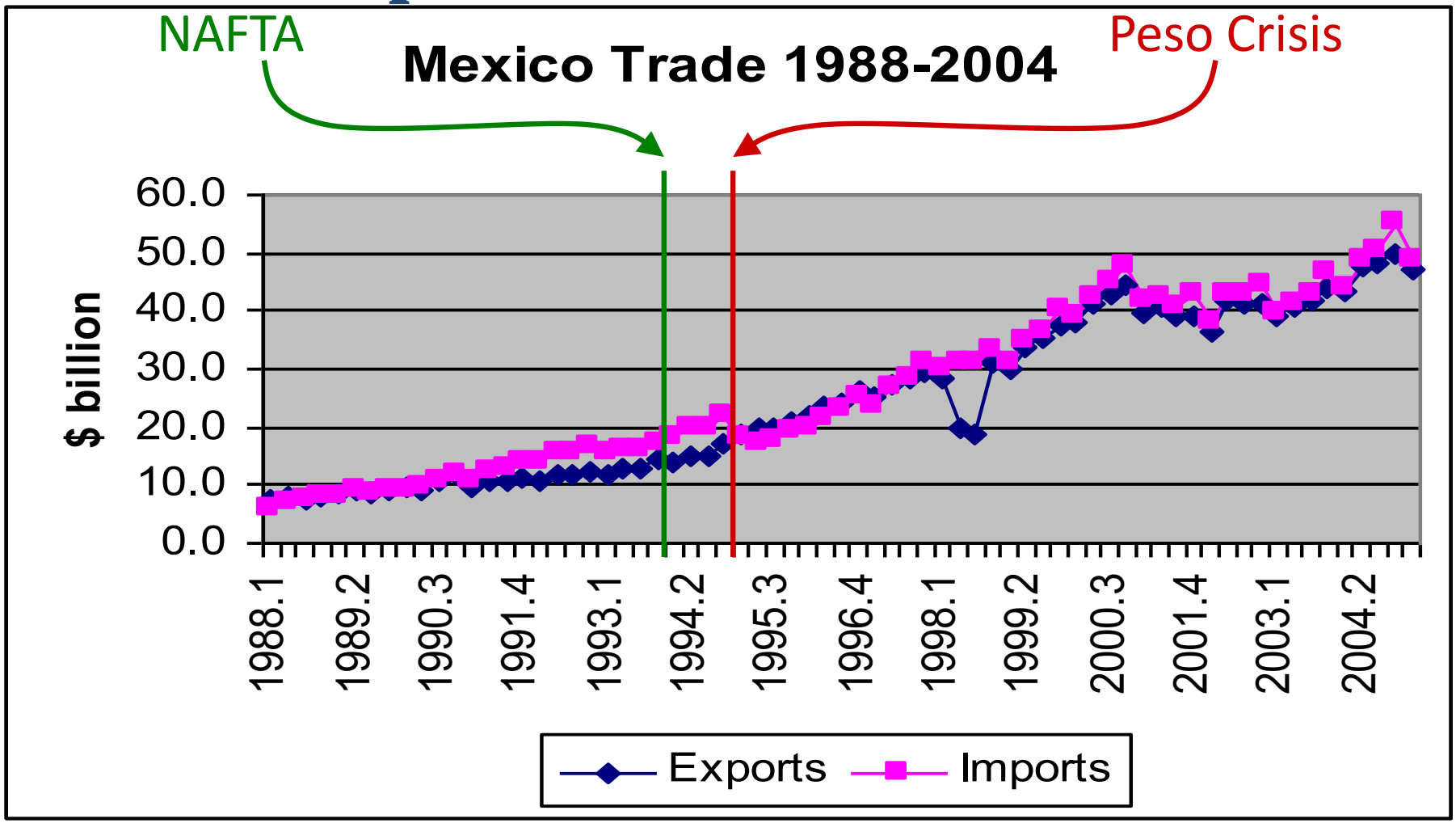
NAFTA: What Happened - Mexico Imports Fell after Crisis



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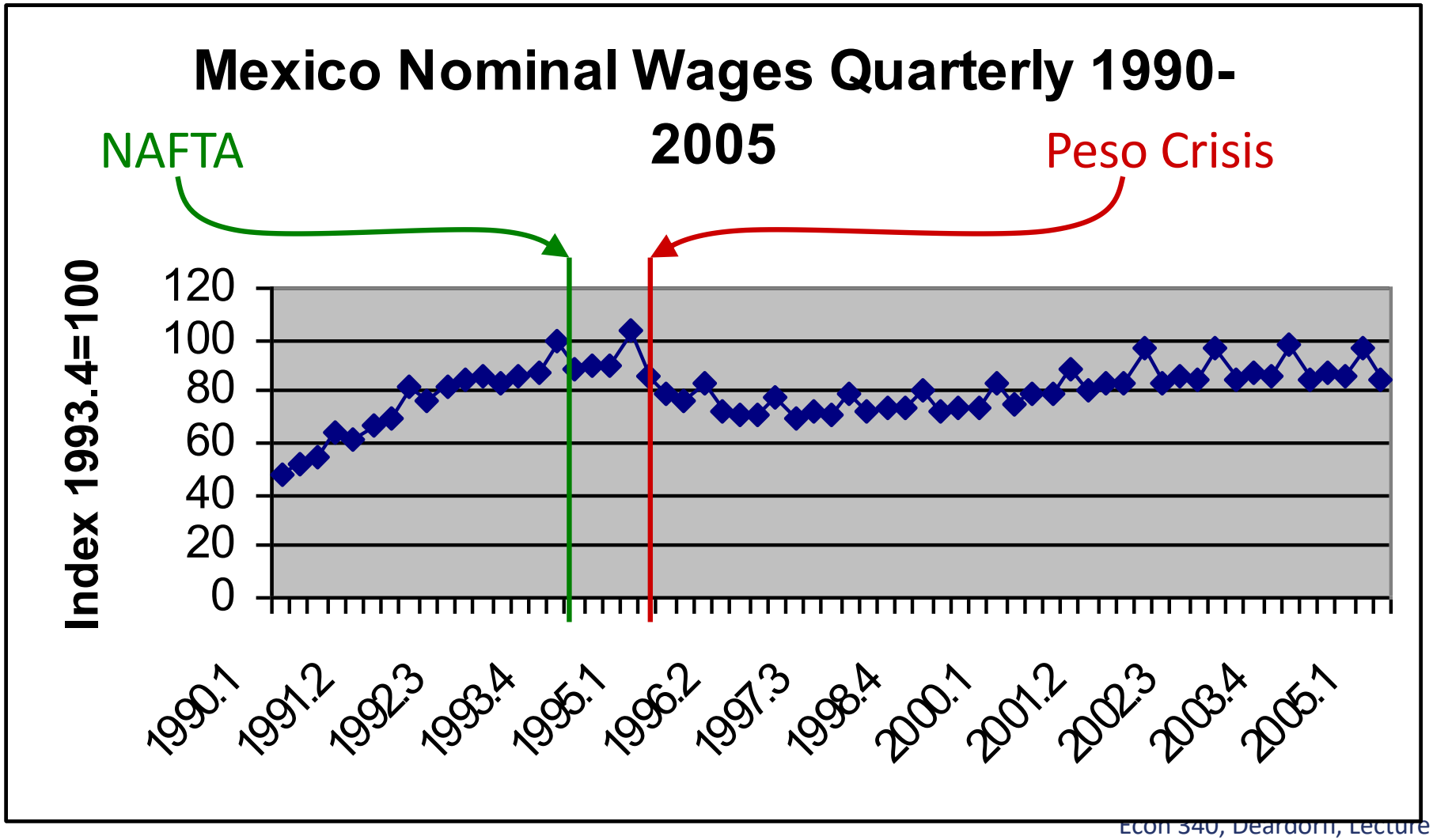
NAFTA: What Happened - Mexico Wages Fell after Crisis



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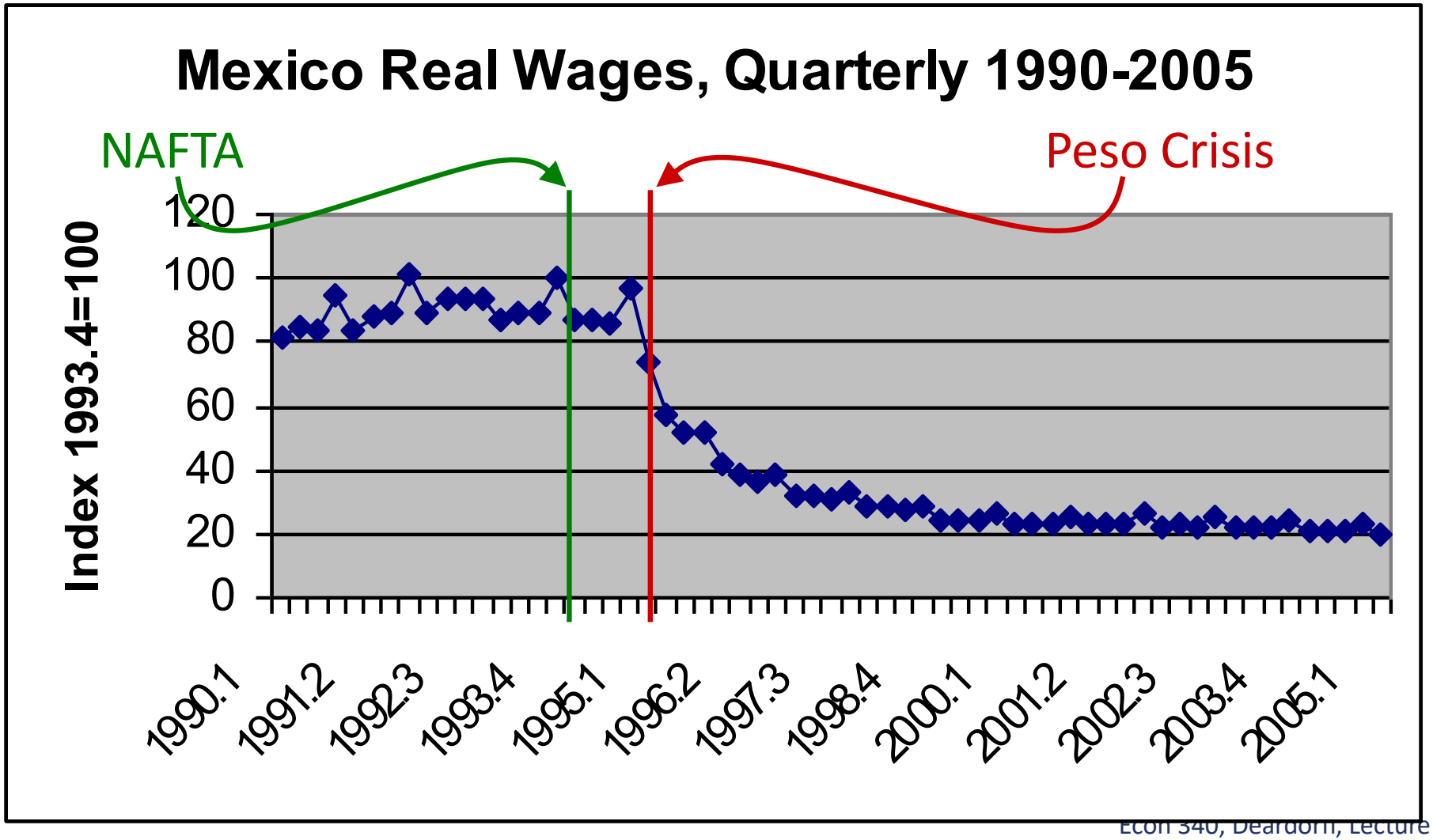
NAFTA: What Happened - Mexico Real Wages Plummeted!



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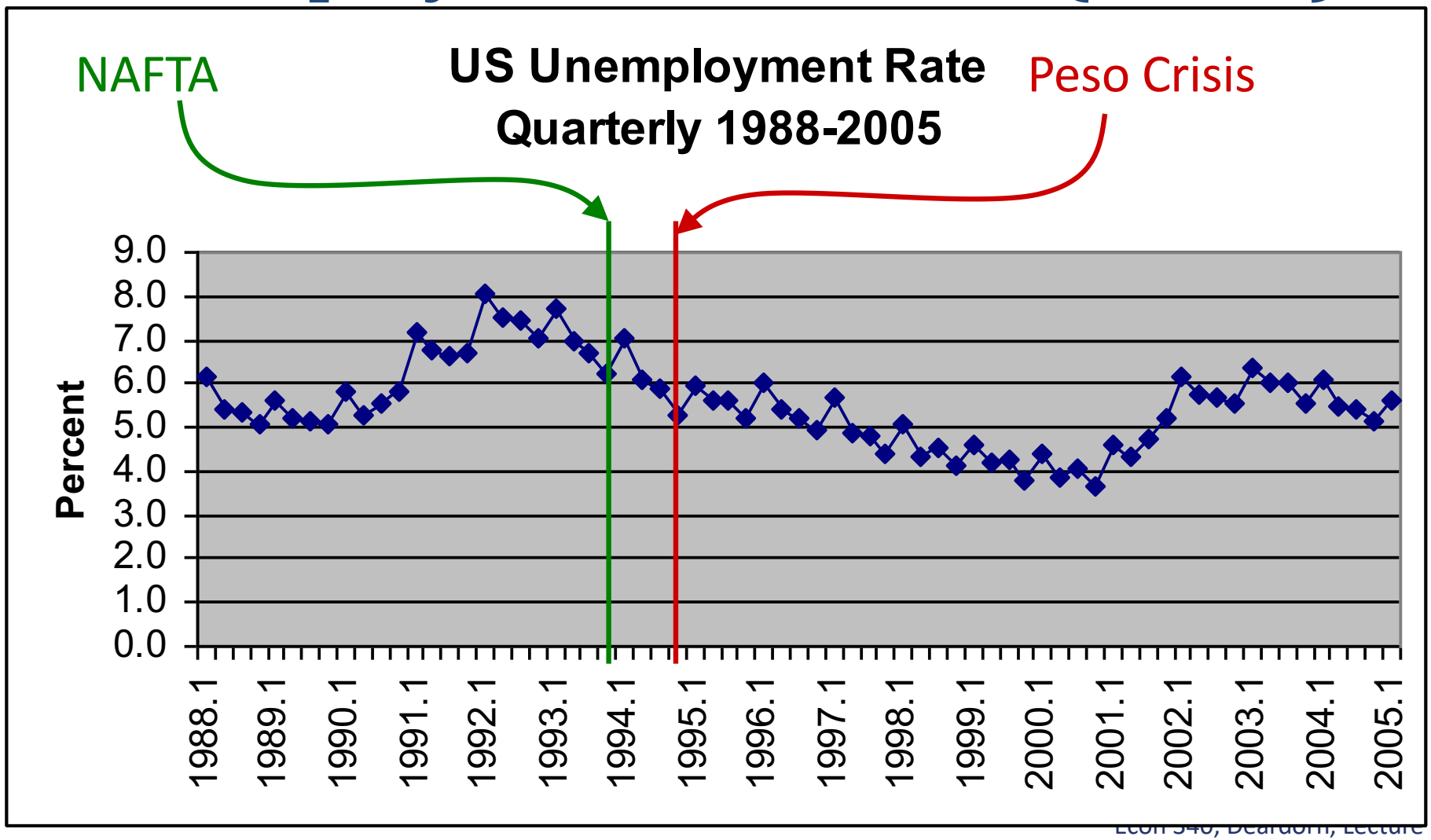
NAFTA: What Happened - US Unemployment: No effect (or fell)



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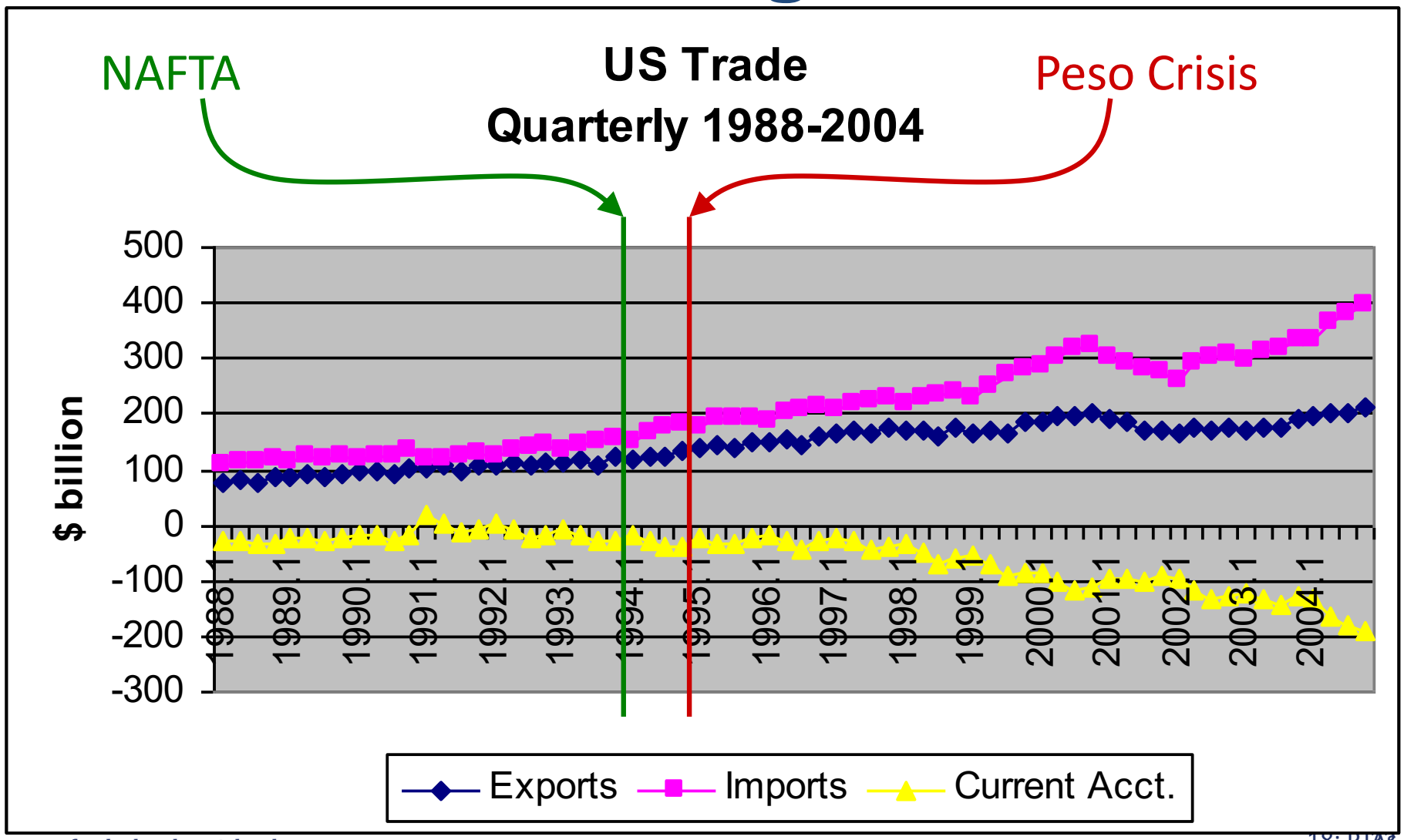
NAFTA: What Happened - US Trade: Continued growth



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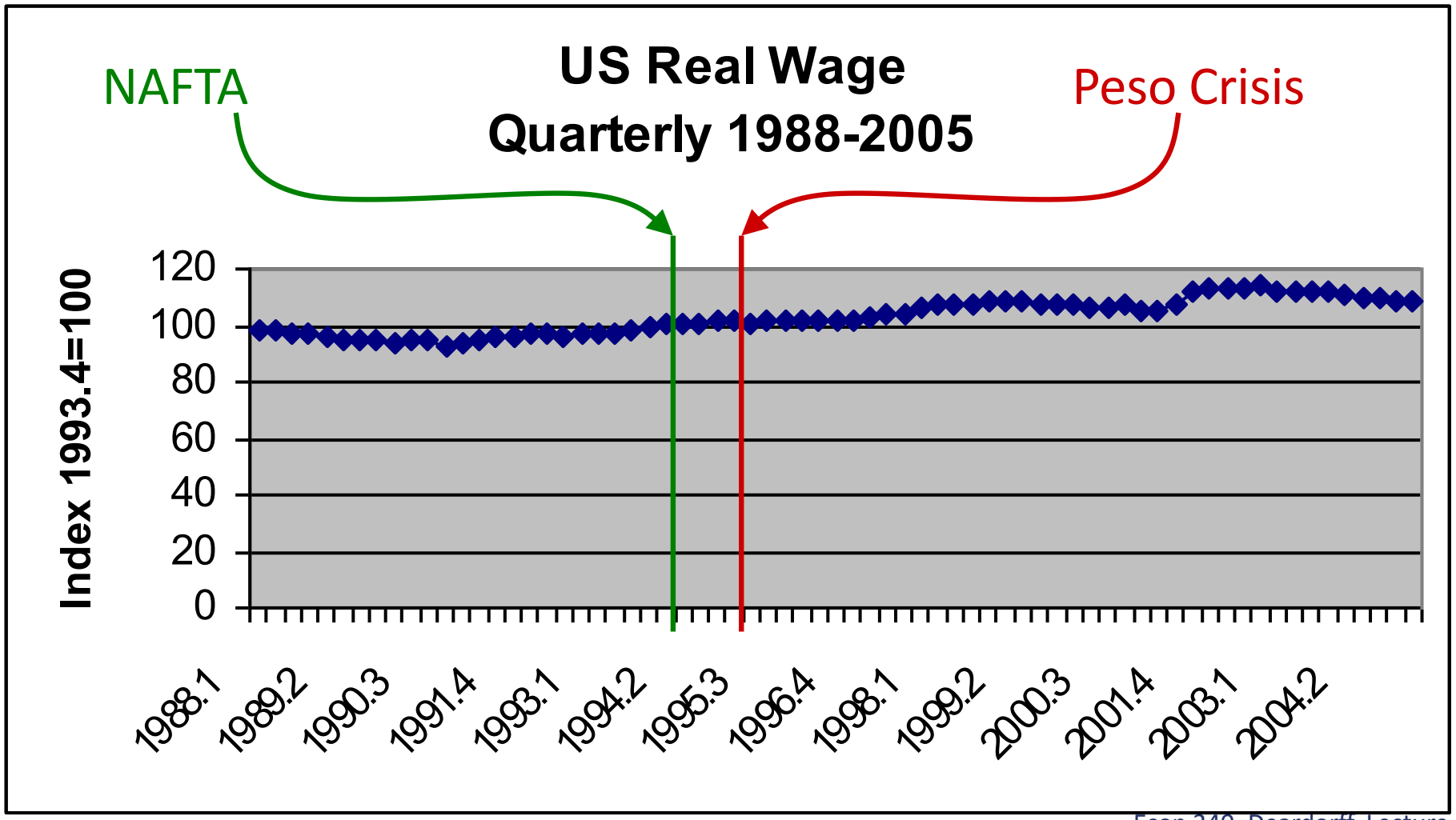
NAFTA: What Happened - US Real Wage: No Change



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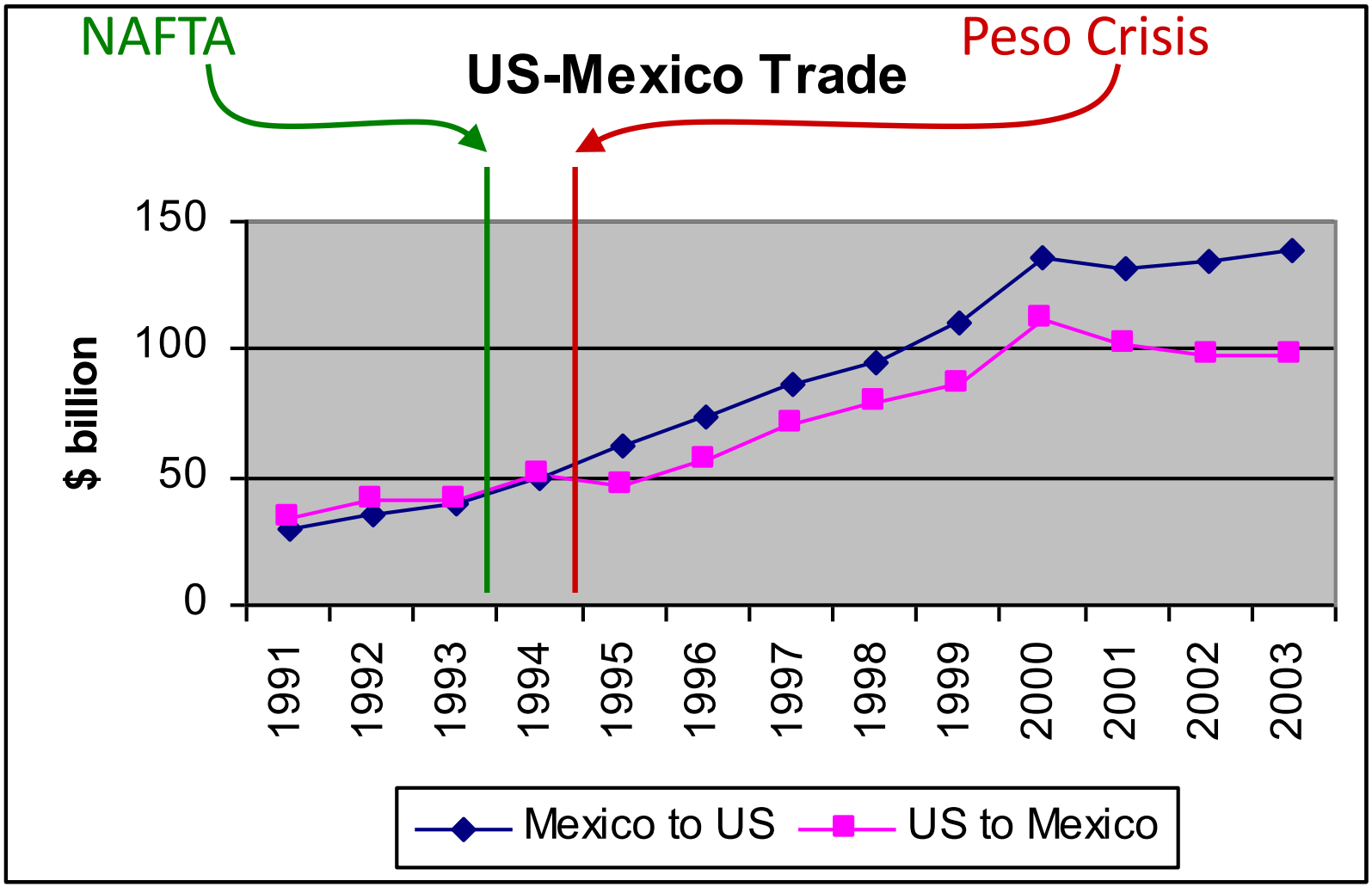
NAFTA: What Happened

Trade Grew, More To US than From



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Trump Trade Policy: NAFTA

- Threatened first to pull out of NAFTA
- Was persuaded to "renegotiate" instead
  - By leaders of Canada and Mexico
  - By US business interests
- Why? Because NAFTA permitted supply chains to extend across borders.
- Trump seeks to use the threat to get a "better deal"

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Trump Trade Policy: NAFTA

- What will the better deal be?
  - Tighter "rules of origin"
  - Improved access to Canada for US dairy
  - Revise Investor-State Dispute Settlement
  - Drop Chapter 19, that arbitrates AD & CVD
  - Include "Buy American" for governments
  - Prevent currency manipulation

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Trump Trade Policy: Other Issues

- Several that have come and gone
  - Huge tariff on China
    - Mentioned during campaign, but not since
  - Border adjustment tax
    - Resisted by US retailers
  - Tariffs on imports of steel and aluminum
    - Resisted by manufacturers that need these inputs

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Trump Trade Policy: Other Issues

- Korea-US FTA: Pull out of that too, or renegotiate? (Said yes, Sep 2; said no Sep 5)
- Case against China for violating US intellectual property rights
  - Filed under Section 301 of US trade law
  - Hasn't been used for years, and likely illegal under WTO
- Actions on currency manipulation?

Conclusions?

- It's very hard to know what US trade policy will be under Trump
  - At his most extreme, he threatens
    - Greatly increased protectionism
    - Trade war
    - Extreme economic harm to US
  - His actions so far have mostly been far more mild and conventional