

## 50 days in: The Global Backlash Against Trump Trade

The President's nascent trade policy has already drawn sharp rebukes from key trade partners that threaten the competitiveness of American exporters and investors. The refusal of the U.S. to endorse a G-20 statement condemning protectionism demonstrates the gulf between Washington and countries that, as recently as December, were its stalwart partners in promoting the rules-based system of free global trade. The announcement this week of a forthcoming White House review of 14 existing U.S. free trade agreements (FTAs) promises protectionist moves that will meet staunch resistance from treaty partners.

## Tax Reform and U.S. Protectionism Face WTO Challenges

Trade ministers in Germany and Mexico are among many foreign leaders who claim that a notional U.S. "border adjustable tax" will violate the rules of the World Trade Organization (WTO). Prospective legal disputes at the WTO may not prevent major economies, such as the EU and China, from immediate retaliation against discriminatory American tax schemes. Foreign leaders have cautioned that U.S. protectionist measures risk inciting a trade war. The intended message of this unusual rhetoric is that unilateral U.S. actions that would effectively raise tariffs or bar foreign products from the U.S. will be met with retaliation targeting sensitive U.S. industries, including agriculture and manufactured exports.

## Reviewing FTAs, the Next Trade Executive Order

On March 20, Administration officials announced a pending review of U.S. FTAs. The review will seek to identify areas where the U.S. has leverage to negotiate new terms on issues including e-commerce and government procurement, and address bilateral trade deficits through White House-led political pressure against individual trade partners. The political dynamic on trade, where the White House may expect support from protectionist Democrats in Congress, will also create political vulnerabilities for many developing country trade partners who lack the ability to forcefully counter an aggressive push by Washington.

## Trade Integration Proceeds, Without the U.S.

Many key economies are already forging ahead with ambitious trade agreements in Asia, Europe and South America that will leave U.S. exporters and overseas investors at a pronounced disadvantage. President Trump's disavowal of the transatlantic free trade (TTIP) negotiations has catalyzed European leaders to reinvigorate stalled free trade negotiations with Japan, China and the MERCOSUR block. The EU and Japan aim to complete an FTA this year, while Chinese President Xi and German Chancellor Merkel have endorsed completing a bilateral investment treaty soon and potentially expanding talks to include a full trade agreement.

Turning to the Pacific, the 11 countries that remain in the Trans-Pacific Partnership (TPP) following U.S. withdrawal have begun talks to implement the deal among themselves. Australia has also announced its intention to pursue a separate free trade pact with Mexico, Peru, Colombia and Chile, all original TPP members. China continues to lead efforts to secure the conclusion of negotiations toward the Regional Comprehensive Economic Partnership this year as well. Canada, meanwhile, is pursuing new trade diplomacy with China, Japan and India, in part as a safeguard against potential U.S. withdrawal from NAFTA. The prospect of these deals means significant losses of market share for U.S. exporters in the near future.



## What to Look For & What Should I Do?

- How might a U.S. push for strictly reciprocal trade with specific foreign countries impact your supply chains and foreign market access?

*"Foreign leaders have cautioned that U.S. protectionist measures risk inciting a trade war."*

- Time is short to push back against protectionism. The White House has identified trade as its next priority after health care reform. Do you have congressional champions to safeguard your interests?
- What is your backup plan if the border adjustment tax passes Congress by summer? Have you assessed the impact on U.S. imports and exports for your company or sector?

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\*The Night Note has a long tradition in Washington, where for years it has been a channel used by cabinet secretaries to alert the White House of critical issues and vital news that should be among the President's priority concerns. We've adapted it here to communicate timely issues that concern the trade and investment community stemming from new policy actions and decisions taken by the Trump Administration.