

POLICY INITIATIVES OF PRESIDENT TRUMP'S CABINET:

A PERSPECTIVE ON TRADE AGREEMENTS

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The Trump Administration is now in its second year in office, and extensive changes are being made by both the White House and the major agencies. Every month for your background information, we are issuing a special report on one area of change. Here is the third report, on trade policies.

President Trump is moving ahead on his promise to raise tariffs as part of a strategy to bring back American jobs lost to cheaper overseas labor. He is clearly determined to keep the campaign pledge he made repeatedly to supporters, even if it defies warnings from some economists that the costs could exceed the benefits of the recently passed tax cut package.

Pushback is clearly underway. The Chinese, for example, have responded to President Trump's first round of proposed tariffs by targeting a variety of important American exports such as soybeans, whisky, corn and automobiles. If China's counter-tariffs are left in place, jobs could be lost. Wages could fall. Consumers could pay higher prices.

When President Trump announced his proposed tariffs, global stock markets reeled. They eventually recovered, but the gyrations clearly signaled that investors are alarmed by the possibility of a trade war between the world's two largest economies, the U.S. and China. As expected, the White House is being besieged with complaints from economists, businesses and agricultural interests urging the President to pull back.

While continuing to dismiss the likelihood of economic turmoil if billions of dollars in tariffs are imposed, the White House has shown signs of retreating on some aspects of President Trump's trade policies.

One of the most important signs was President Trump's statement last week that he is considering rejoining the Trans-Pacific Partnership, from which he withdrew shortly after taking office. The TPP was created during the Obama years as a hedge against China's burgeoning economic power, but President Trump, who saw it as a "disaster" for America when he took office, is now calling for improvements if the U.S. is going to rejoin.

There is still uncertainty about what will happen next.

This arises not only because of President Trump's sudden about-face on the TPP, but also because of the conflicts between his views on trade and those of the advisers he surrounds himself with.

President Trump defends his maneuvers, saying that his trade threats coupled with the \$1.5 trillion tax-cut package already are having the desired effect of creating more domestic jobs. Except for a few high-profile examples, such as Apple's pledge to create more jobs in the U.S., job growth levels are running at roughly the same pace as during President Obama's second term. But President Trump insists, "We are bringing back our factories. We are bringing back our jobs. We are bringing back 'Made in the U.S.A.' "

American labor seems deeply concerned that President Trump is reexamining the TPP. AFL-CIO president Richard Trumka said last week, "TPP was killed because it failed America's workers, and it should remain dead. There is no conceivable way to revive it without totally betraying working people." The issue, therefore, may become what steps the Trump administration takes if it does rejoin the partnership to help workers get the training and education they need for new and better jobs. The loyalties of the President's heavily blue-collar base may hinge on how that goes.

One success that appears to be within President Trump's grasp is a renegotiated North American Free Trade Agreement. According to both Vice President Mike Pence and Canadian Prime Minister Justin Trudeau, an agreement is likely to be reached within weeks. Trudeau was frank in saying that the chief motivation for getting to closure so quickly is to keep the treaty from becoming a political football in the Mexican general elections on July 1 and the U.S. midterm elections in November. But then, political considerations are always a factor in trade negotiations, and since all three parties agree that many parts of NAFTA need to be updated and revised, the added pressure does help break the logjam.

There are similar revisions that should be made in a number of other U.S. trade agreements. How well that goes will depend on many factors, not the least of which is the President's ability to develop a consistent, practical approach to international trade. One thing that should be clear to the White House after China's tit-for-tat response to the president's first round of tariff proposals is that trade wars are neither good, nor easy to win.