

US Trade Policy under the Current Administration

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Outline

- US Commitments on Trade Policy through the World Trade Organization
- The Current Administration's Trade Policies, Strategies and Ideas
- Current Issues Associated with those Strategies
- Problems with those Strategies
- Future Prospects and Implications for Indonesia

The United States is Founding Member of GATT/WTO

- General Agreement on Tariffs and Trade was established in 1947, after WWII
- Originally 23 countries
- GATT became the WTO after the Uruguay Round on Jan. 1, 1995
- General principle is that reducing barriers to trade is beneficial.
- But is becoming difficult with so many members – 164 now

GATT Principles

- Reciprocity – each country wants to get concessions from others
- Nondiscrimination – Most favored nation
- Transparency
- National Treatment – same treatment
- Compensation – entitled to damages if harmed

GATT/WTO Reality

- Only as good as member pledges
- National sovereignty is always an issue
- Under GATT resolution of disputes were always up to the member nation
- Negotiations are handled in “rounds”
- Difficult when there are no votes; everything is done by unanimous agreement

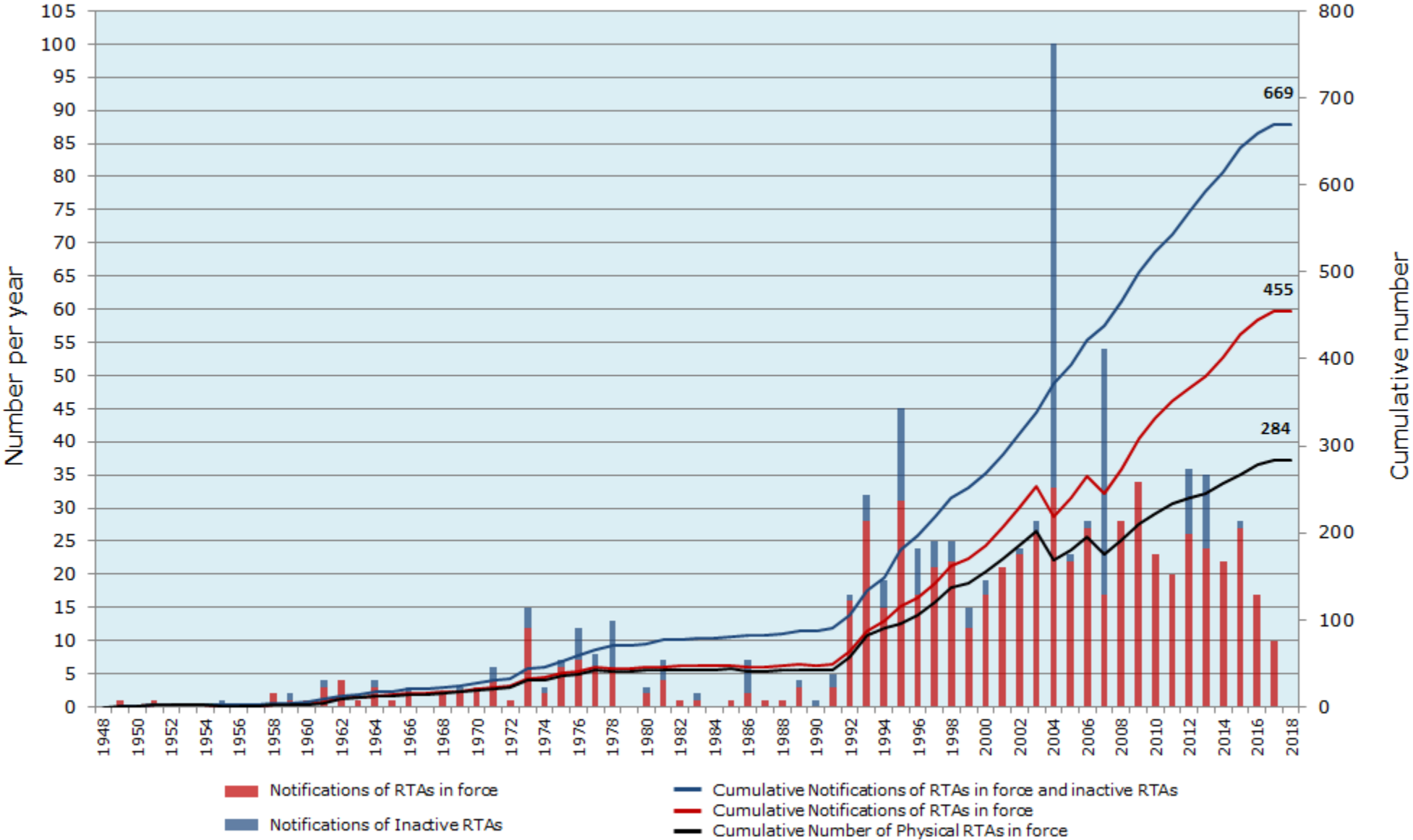
Dispute Settlement

- Stronger Dispute Settlement, file with WTO
- 30 days enter consultation
- 60 days to resolve the dispute
- Panel appointed by parties or WTO DG
- Final resolution within 14 months
- Loser must compensate or withdraw

Regional Trade Agreements are Increasingly Important

- Negotiating through WTO is difficult and slow
- Everyone must agree
- RTAs are easier and faster to negotiate
- There are almost 700 different RTAs today

Evolution of Regional Trade Agreements in the world, 1948-2018



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together. The cumulative lines show the number of notifications/physical RTAs that were in force for a given year.
 Source: RTA Section, WTO Secretariat, 25-Jan-18.

Current Administration's Views

Key Elements of Trade Policy/Strategy

- Renegotiate Everything
- Attack Trade Deficits
- Combat “Dumping”
- Don’t Worry about International Norms
- Use WTO if Convenient

Targets So Far

- Trans Pacific Partnership – US withdraws
- North America Free Trade Agreement (NAFTA) -- Negotiations Recently Completed
- South Korea – US Free Trade Agreement (KORUS FTA) – Negotiations Recently Completed
- All these trade agreements were the worst deals ever before renegotiation
- Almost country escapes, but China is the major individual country target

Products Targeted by the US

- Solar Panels and Washing Machines in January 2018 – mostly China and South Korea
- Steel and Aluminum in March 2018 – mostly Canada, Mexico, and EU
- Basis for the first products was anti-dumping
- Basis for the second products has changed and now seems to be national security

Negotiations with Individual Countries

- Canada and Mexico based on NAFTA renegotiations (steel and aluminum)
- Japan based on President Abe visit (steel and aluminum)
- Korea based on KORUS FTA (washing machines)
- European Union – visits of President Macron and Chancellor Merkel (steel and aluminum)
- China relations are more combative

How Does WTO fit into all This??

US – China Trade War 2018

US Action

- Solar Panels
- Steel and Aluminum had some impacts
- 25% tariffs on \$50B in Chinese products; restrict investments
- President Trump talk of tariffs on \$100B in Chinese products

Chinese Response

- Sorghum Investigation
- 128 US products targeted for tariffs (including pork, Harleys, bourbon)
- Tariffs on \$50B products – soybeans
- Continue to talk tough

Reasons for these US Policies Toward China

- Trade Deficit
- Unfair Trade Policies by China
- Unfair Restrictions on US companies operating in China
- Weak Intellectual Property Laws and Implementation

China's Typical Response

- Provide a “proportional response” -- \$50B in imports from the US, up to \$50B in imports from China
- Choose goods where there are other suppliers to dampen the domestic impact.
- Choose goods that have economic and political implications to get many US states involved (Harleys, bourbon, sorghum).
- The third round went beyond these three factors when soybeans were included.

Concerns for US Agriculture

- China is a \$20B to \$24B market for US agriculture
- Sorghum – almost all exports go to China – 179% tariff
- Pork – not an important market for the US – 25% tariff shuts the US out
- Soybeans – over 50% of US soybean exports go to China – 25% tariff could have a major impact on US and world trade. China accounts for 60% of world trade. Estimate an 8.7% drop in US soybean prices.
- Other products – fruit, wine, ginseng

Issues with the US Stance

- Balance of Trade is the key statistic(s) cited
- Balance of Payments involve much more than trade in goods
- US dollar as a Key Currency
- Importance of US Debt and its Impact on BOT and Exchange Rate

Components of BOP

- Trade in goods
- Trade in services
- Income flows and money transfers
- Direct investment flows
- Portfolio investments
- Debt

The Warranted US Deficit

- How much the US BOP Deficit should be due in its Role as a Key Currency
- Estimated by looking at World GDP growth, Central Bank Reserves, and Volume of International Trade
- Affected by the Regard for Other Currencies – Euro, Yen, Yuan
- The Warranted Deficit is Volatile, but it can be large

U.S Trade, Budget and Warranted Deficits in billions



Potential Impacts of Such Trade Policies

- The BOP is determined by money and debt flows, so other factors will change
- If trade policies push Exports up or Imports down for some sectors
- US dollar appreciates and reduces exports from other sectors
- What have we seen this year? An appreciation of the US dollar and an increase in the trade deficit.

Mercantilist Approach to Trade

- Exports are Good
- Imports are Good
- The Gains from Trade – not Exports
- The US government is choosing what sectors should increase production and export more. Industrial policy went out of favor in the 1990s

What Can the US Do?

- Realize that trade is beneficial to all countries, but that some individuals and companies will lose.
- Work on strategies to help individuals adjust to globalization impacts.
- Work within the World Trade Organization when disputes arise
- Help make international trade work better through agreements such as the Trans Pacific Partnership
- Reduce its government debt so that there is less need to borrow (the recent tax bill is projected to increase the budget deficit by \$1.5 trillion).

Implications for Indonesia?

- The US runs about a \$1B trade deficit with Indonesia every month.
- That is relatively small, but who knows when it will capture the attention of the current administration
- What might be more important is fallout from the US disputes with China.
- Positive and negative impacts of trade and investment deflection
- An even bigger US-China confrontation where other countries in the middle need to choose sides