

Consequences of US Trade Policy on EU-US Trade Relations and the Global Trading System

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Report Background, Outline

- Commissioned May 2018; Completed October 2018
 - With colleagues Peter Sparding in Washington, Xiuqun (Stephanie) Sun, Yuki Mukai
- Outline
 - Introduction
 - US Trade Policy Under the Trump Administration
 - Assessment
 - Scenarios
 - Conclusions

Trump Administration's Trade Policy

- Ethos – The United States as a victim

Trump Administration's Trade Policy

Ethos – The United States as a victim

➤ Of its own policy:

“..., we reject the notion that the United States should, for putative geopolitical advantage, turn a blind eye to unfair trade practices that disadvantage American workers, farmers, ranchers, and businesses...”

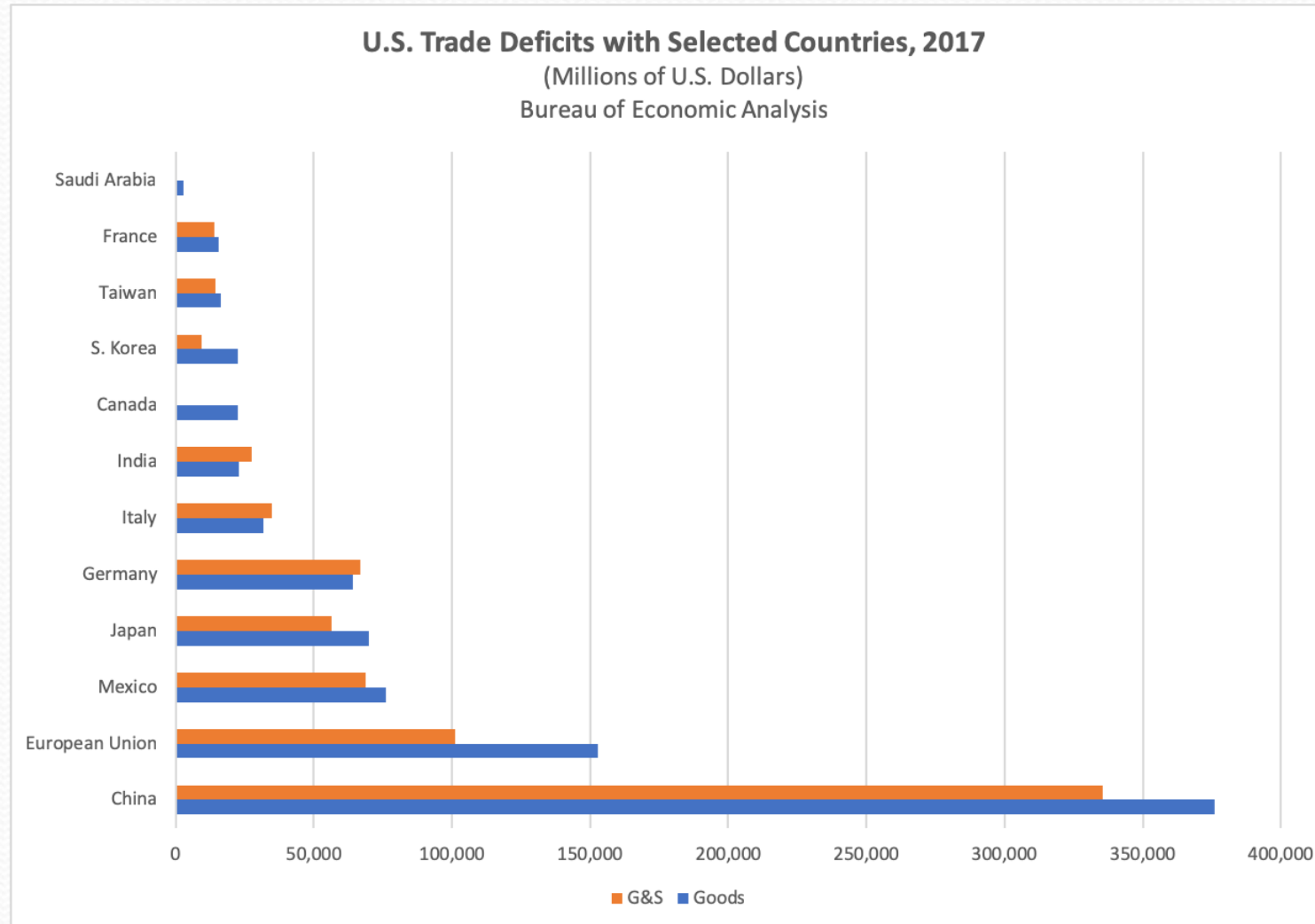
(U.S. Trade Policy Agenda, March 2017)

Trump Administration's Trade Policy

Ethos – The United States as a victim of its own policy...

➤ As demonstrated by its trade deficits:

Trump Administration's Trade Policy



Trump Administration's Trade Policy

Ethos – The United States as a victim of its own policy
As demonstrated by its trade deficits

➤ China as the main, but not only, problem

Conclusions:

- ❖ Demand “Fair, Free and Reciprocal” trade
- ❖ Use all instruments to make unfair trade expensive
- ❖ Bilateral rather than multi-/pluri-lateral agreements

Trump Administration's Trade Policy

Setting the Agenda (mainly 2017)

- TPP Withdrawal (January 20)
- Re-negotiate NAFTA (February 2)
- Trade Deficits Report (March 31)
- AD/CVD Enforcement (March 31)
- Buy American, Hire American (April 18)
- Steel & aluminum national security investigations (April 20, 27)
- Trade Agreement violations report (April 29)
- Review of US-Korea FTA (July 21)
- China Section 301 (August 14)
- Auto and auto-part national security investigation (May 23, 2018)
- Uranium national security investigation (July 18, 2018)

Trump Administration's Trade Policy

Actions/Outcomes

Domestic Policies with Trade Effects

- Buy American, Hire American
- Tax Cuts and Jobs Act (December 20, 2017)
 - Global Intangible Low-Tax Income
 - Foreign Derived Intangible Income

Trump Administration's Trade Policy

Actions/Outcomes

Trade Policies

- Trade Defense
 - AD/CVD
 - 137 new investigations, 303% increase over Obama (December 21, 2018)
 - Safeguards (Section 201) - Solar, Washing Machines (January 23, 2018)

Trump Administration's Trade Policy

Actions/Outcomes

Trade Policies

- WTO
 - Appellate Body reform
- Trade Agreements
 - TPP – withdrawal (no movement with Japan)
 - NAFTA – USMCA signed November 30, 2018
 - Korea FTA modified (announced March 2018, signed September 2018)
 - TTIP – new effort begins July 25, 2018
 - US-UK
 - Other (IndoPac, Latin America)

Trump Administration's Trade Policy

Actions/Outcomes

Trade Policies

- Section 232 a “legal” way to break bindings?
 - Steel and aluminum
 - Findings in January 2018, initial decisions March 8, with some exceptions
 - Tariffs generally effective March 23, 2018
 - Argentina, Australia, Brazil, Korea moved to quotas
 - EU, Canada, Mexico subject to tariffs June 1
 - Canada, Mexico to move to quotas?
 - Retaliations: Canada, Mexico, EU, China, Russia, India; WTO cases
 - Autos and auto parts – report due mid-February 2019
 - Uranium – report due April 2019

Trump Administration's Trade Policy

Actions/Outcomes

Trade Policies

- China – economic “aggression”?
 - Section 301
 - Findings March 22, 2018: forced tech transfer thru FDI, IPR; acquisitions; espionage
 - 25% Tariffs on \$50 billion of imports (\$ 34bn effective July 6; \$16bn effective August 23, 2018)
 - Counter to China's response:
 - 10% tariffs on \$200 billion of imports (effective September 18, 2018); to increase to 25% effective March 2, 2019 if no deal by then
 - CFIUS Review
 - Foreign Investment Risk Review Modernization Act (FIRRMA) signed August 13, 2018
 - US-EU-Japan “trilateral” efforts

Assessment: EU-US Trade Relationship

- EU Response to steel, aluminum
 - “Re-Balancing” illegal safeguard
 - 2.8 bn euros June 22
 - WTO case
 - Safeguard measures
- Juncker-Trump meeting (July 25, 2018) – Cease-fire on autos?
 - Work toward zero tariffs, zero non-tariff barriers and zero subsidies on non-auto industrial products
 - Increase LNG trade
 - Dialogue on “standards”
 - Unfair trade (China)
 - Executive Working Group

Assessment: EU-US Trade Relationship

- Executive Working Group
 - “Scoping” meetings August, October, December, January
 - US notice of intent (October 16); negotiating objectives (January 11, 2019)
 - EU draft negotiating mandate (January 18)
- Clear difference: Agriculture

Assessment: EU-US Trade Relationship

US Negotiating Objectives

- “fairer, more balanced trade”
- Comprehensive [like TTIP(-)]
 - but willing to “pursue negotiations ... in stages”
- Goods:
 - agriculture included, but market access not “comprehensive duty-free;” biotech procedural; SPS extensive
- Services
 - Digital trade
- Government procurement (open EU market, reciprocity, transparency, no sub-federal, freeze)
- Investment, no ISDS
- Regulatory compatibility; good regulatory practices; transparency; anti-corruption
- SOEs, subsidies, competition
- Labor and Environment
- SMEs
- State-to-state disputes
- Currency

Assessment: EU-US Trade Relationship

EU Negotiating Mandate

- Industrial tariff elimination
 - Consideration of sensitive products (autos?)
 - Rules of origin
 - Institutional framework
 - Dispute settlement
 - Suspend talks if any new 232, 301 measures; conclude only if existing 232 measures removed
- Conformity Assessment MRA

Scenarios: EU-US Trade Relationship

- Ideal: Return to Status Quo ante (no longer possible)
 - End existing, future 232s; withdrawal of related WTO cases; NAFTA rules of origin; end China 301; work in WTO to address China trade practices; use EWG to achieve EU-US agreement
- Partial Improvement of EU-US
 - Steel, aluminum 232s changed to (good) quotas; WTO cases ended; auto 232 terminated/EU exempted; EU-US trade deal; collaboration re China
- Downhill – fast, or faster
 - 232 steel and aluminum kept; 232 autos announced (but suspended/mitigated?); maybe conformity assessment MRA; unenthusiastic cooperation on China
 - As above, but 232 autos enacted; all else collapses

Scenario: WTO and Global Trade

WTO

- Ideal – Agreement on Appellate Body reform; “developing” status tightened; rules re subsidies, SOEs, IPR tightened
- Likely -- Eventual agreement on AB; years of work ahead on other issues

China

- Ideal – China understands serious reforms in its own interests and implements them
- Likely – China buys more from US, accepts some reforms (and possible WTO rules changes)
- Possible – US/China dispute escalates

Conclusions – EU's Influence

- Lead, Don't Re-act
 - Can “stand firm” against the Trump Administration OR
 - Reframe Trump Ethos -- Embrace “Re-balancing”
 - Accept responsibility, but insist on authority
- **EU-US**
 - Separate/Stage by *function*, not sector
 - Market access all sectors
 - Regulatory cooperation distinct
 - Agricultural market access: Issue is regulatory, not tariffs
- **WTO**
 - Continue to take lead
- **China**
 - Bold and Comprehensive WTO Case
 - EU, Japan lead on diplomatic effort