



US Trade Policy: Upping the ante for high-stakes poker

On what President Trump called his first day in office, he signed an executive order informing the other countries party to the Trans Pacific Partnership (TPP) that the United States was withdrawing from the proposed treaty. This action delivered on one of the President's promises from the election campaign, and, as White House press spokesman Sean Spicer declared, "signals a new era in trade relations" for the United States.

In meetings with AmCham Czech Republic over the summer, Congressional representatives from both parties predicted that TPP would not be ratified by either legislative body because of opposition from working and middle class voters in many states, including the key "swing" states of Michigan, Ohio, and Pennsylvania. The President's action, therefore, may be more significant for what it represents than its effect.

And what does it represent? How will the new era be different than the old era? From our small experience from the campaign and transition, President Trump seems to follow some standard, hard negotiating tactics. He creates diversions (see Twitter) and bargaining chips (see, possibly, Wall) in order to create confusion about his intentions and to improve his negotiating conditions. He masks his bottom line and his intentions, and he tries to get his opponents chasing ghosts.

The executive order on TPP, therefore, needs to be considered as device used to achieve an end. And that end, possibly, could be a series of bi-lateral trade agreements that put bigger pressure on China to open its markets.

In his inaugural press conference, Spicer revealed three key principles of the new administration's trade policy. One, trade agreements will be to benefit "American workers first and foremost". Two, the administration prefers bi-lateral agreement to multi-lateral agreements because they believe the United States does not benefit from the "lowest common denominator" effect of all parties of treaty being treated equally no matter the size of the economy represented. Three, the administration wants to use access to the US consumer market more effectively as a negotiating weapon. Spicer told reporters that "small countries" need to be aware that they "are getting access to a larger market."

To do this effectively, according to the White House, America will pursue a number of improvements in existing trade agreements, apparently starting with NAFTA, and a number of new treaties. Where does this place TTIP? It is difficult to determine. TTIP fits in the multi-lateral agreements that the White House views as disadvantageous. Yet, the EU is also America's largest trading partner, and not one that pays its workers significantly less than American workers. The EU's consumer market is approximately as potent as the US market. In terms of principles, TTIP seems a fairly good match.

What probably makes it less attractive, however, is the differences in regulatory approach. European critics of the treaty have demanded that the EU should stand firm on what they see as better protections of consumers and the environment. President Trump has made reducing regulations for American businesses a major part, if not the major part, of his efforts to create more jobs. In a press event with leading US businesses on Monday, President Trump said that business leaders had informed him that regulatory reform was more important to them than tax cuts. The President stated that his team felt they could decrease regulations by approximately 70% and still keep them "just as strong". If the President does accomplish the reduction, but cannot maintain the standards, the ability to negotiate TTIP successfully will drop just as precipitously.

In the next few weeks, the President will meet with the leaders of Canada and Mexico to discuss the North American Free Trade Agreement. Those meetings will force the President to reveal his hand a little more, and give his team some time to fill in the details of a very ambitious agenda to change global trading flows.