

TRUMP, TRADE AND AUSTRALIA

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Republican candidate continues hard line on trade

NAB Group Economics

Mr Trump's economic platform is radical in many respects, calling for big tax cuts, alongside continued support for health and welfare spending. His trade policy has the most direct implications for Australia as he proposes a more assertive unilateral approach that could trigger global trade tensions, especially with China (Australia's biggest export market), runs against the rules-based multilateral trading system that Australia and NZ have always supported and could result in the WTO being dragged into very difficult US-Chinese trade disputes.

WHAT DOES MR TRUMP WANT?

Donald Trump, the Republican candidate in the November US Presidential election, stuck to his guns on trade issues in his acceptance speech for nomination. After campaigning strongly for big changes to US trade policy – measures that carry important implications for Australia, if implemented – Mr Trump's acceptance speech made it quite clear that his support for a "new fair trade policy that protects our jobs and stands up to countries that cheat" remains.

What does this mean for US trade policy?

Mr Trump has consistently criticised US trade policy for being:

- insufficiently focussed on advancing US interests – as revealed by a series of "bad" free trade deals
- pursuing the agenda of a well heeled elite who have paid insufficient attention to the interests of US workers, and
- too soft in tackling countries who "cheat" the system (particularly China).

In contrast, he advocates a much tougher line on countries that allegedly break global trade rules, either the re-writing or repeal of existing US free trade agreements and the use of global and US laws to aggressively pursue US interests.

Last November Mr Trump said in the Wall Street Journal that a Trump-led US administration would declare China to be a "currency manipulator" "on day one". That would begin a process that accused the Chinese of unfairly under-valuing the RMB, thereby providing a subsidy to their exporters and import-

competing industries and allowing the US to impose countervailing duties on Chinese goods. This would operate like a tariff on Chinese goods that were artificially priced too low due to the currency.

In January Mr Trump was more specific, saying he would consider imposing a 45% tariff on Chinese goods imported into the US, "a tax that would be an equivalent to some of the kind of devaluations they've done". He clarified this at a May debate of contending Republican Party candidates, saying that "the 45% tax is a threat. It was not a tax, it was a threat. It would be a tax if they don't behave ...it doesn't have to be 45%, it could be less. But it has to be something..."

Mr Trump's 28 June speech on economic policy gave the fullest statement of his trade agenda:

- the US would withdraw from the Trans-Pacific Partnership (TPP), a big free trade agreement that includes the US and 11 other Pacific countries (of which Australia and NZ are two, but China is not included).
- the US Commerce Secretary is to identify every violation of trade agreements that harms US workers and begin proceedings under US and international (World Trade Organisation – WTO) laws to stop them
- either the immediate renegotiation of the North American Free Trade Agreement (NAFTA) to get a better deal for US workers or the US pulls out of NAFTA
- the US Treasury Secretary will be instructed to label China a currency manipulator
- the US will bring trade cases against China, using both domestic US trade laws and WTO

rules, aimed at “China’s unfair subsidy behaviour”

- “if China does not stop its illegal activities”, Mr Trump will use “every lawful Presidential power” to remedy trade disputes and he specifically mentions 3 US laws of relevance

Mr Trump’s Republican candidate acceptance speech provided a few more insights into his thinking. He

- plans to turn “bad” US trade agreements into “great” US trade agreements – so he is not talking about simply cancelling them, he wants to retain and reform at least some
- plans to never sign any more trade deals that harm US workers – a change from the past broader focus that took account of US consumer interests as well as producers
- will make “individual deals with individual countries” and opposes multi-country trade deals like the TPP
- repeats his intention to either revise or scrap NAFTA, tackle trade violations by other countries and stop Chinese “theft” of US intellectual property, their alleged dumping of cheap goods into the US market and their “devastating currency manipulation”

CAN HE DO IT?

We have seen tough trade rhetoric from previous US Presidents as well as either threatened or actual actions to remedy “unfair trade. President Reagan put tariffs on imports of Japanese electronics in the 1980s, President Clinton threatened 100% tariffs on Japanese luxury cars in the 1990s and the list goes on.

Clearly there is scope for the US to pursue at least some of the measures. This scope is based on

(1) **WTO rules** that prohibit certain subsidies, forbid dumping and allow measures to “safeguard” domestic industries facing serious damage from imports. WTO rules are embedded into US laws that address matters like dumping or subsidised trade.

(2) **Specific US laws** that Mr Trump mentions

- Section 201 of the 1974 Trade Act allows the US to impose tariffs to help local industries facing actual or threatened “serious injury” from imports
- Section 301 of the 1974 Trade Act allows the US to impose tariffs if another country violates a trade agreement or pursues unreasonable, unjustifiable or discriminatory practices that burden or restrict US trade
- Section 232 of the 1962 Trade Expansion Act allows the US to take action to “adjust”

(presumably downwards) imports of goods that could damage the ability of the US to defend itself (so it is focussed on key defence industries and downstream suppliers).

(3) **Provisions in existing US free trade agreements** that allow the parties to withdraw. Article 2205 of the NAFTA agreement says that a country can leave after giving 6 months notice of its intention to quit and there have been bills in Congress asking that the US Government do just that. The Australia-US free trade agreement has the same 6 month wording.

While there are a number of ways the US can adopt Mr Trump’s proposed trade policy, there are also a number of constraints:

- The US could start a trade war as countries affected by its new tariffs retaliate by blocking US exports. China is the obvious candidate here, although it “only” has \$US 164 billion of US exports to retaliate against while the US has almost \$US 500 Billion of imported Chinese goods and services. Nevertheless, there is a history of Chinese retaliation – the 2009 US decision to impose safeguard tariffs on imports of Chinese tyres led to Chinese retaliation against alleged dumping of US foods exports. Although 1000 US tyre making jobs were saved, it was at great cost to consumers and greatly to the benefit of non Chinese foreign suppliers in Indonesia, Thailand and Mexico.
- WTO rules are supposed to limit the extent to which countries can do what they like in trade policy, even when domestic legislation allows it. So, for instance, the US can label China a currency manipulator and impose countervailing duties on allegedly subsidised Chinese exports. However, the latest US Treasury report did not find that the Chinese were clearly artificially lowering the value of the RMB – instead China was put on a watch list with Japan, S Korea, Taiwan and Germany. The Chinese will presumably take full advantage of the gap between the Treasury assessment and a simple declaration that they are a currency manipulator in legal cases.
- Moreover, the Chinese will probably appeal any move to the WTO where it is far from clear that an expert panel would conclude that an allegedly under-valued Chinese currency really constitutes a subsidy within the terms of the WTO rules. Similarly, the US can use its Section 301 provisions and allege that Chinese commercial conduct is unreasonable or unjustifiable but past WTO decisions limit the extent to which the US is allowed to simply and unilaterally avoid the proper WTO dispute settlement processes.

- Important US interests can be harmed by a trade war and unresolved disputes with China. Around 950000 US jobs are supported by exports to China, the Chinese affiliates of US corporations had profits of \$28 billion in 2013, shipped \$US 8.5 Billion in exports to the US but brought in \$11.3 Billion of US goods – China is now locked into corporate global supply chains. US consumers will also face higher prices as low cost Chinese goods are displaced or increased in price. While trade with China has cost the US jobs, it has benefited the economy overall by the boost given to household spending power.

On balance, then, there are a number of avenues through which Mr Trump could pursue his trade policy but – if the next US administration wants to continue the practice of past ones of observing the norms of conduct in international trade – there are also quite severe constraints on turning the tough rhetoric into lasting measures without falling foul of the WTO.

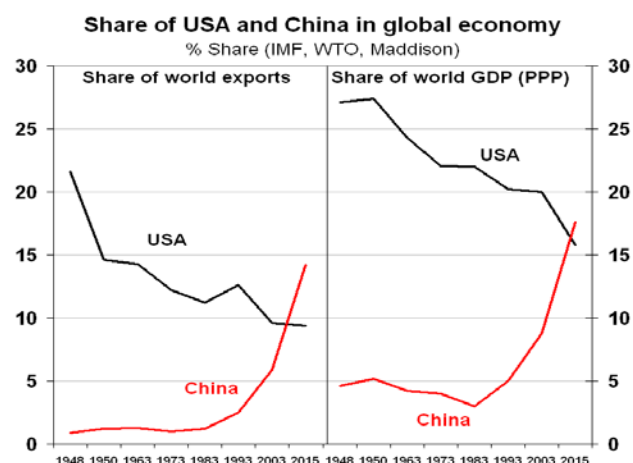
If a new US administration simply ignores adverse WTO rulings on its trade restrictions and persists with them anyway, then the global trading system enters a different – and riskier – ball game and that affects everyone.

WHY IS THIS HAPPENING

Mr Trump has called changing US trading arrangements “a signature message” of his campaign “from day one” and he has good political reasons to focus on it. Trade is an issue that combines his attack on allegedly elitist opponents who have mishandled US interests for sectional and personal gain with public concern that the US is slipping in the ranking of global economic powers.

Responses to the US Gallup poll question on which country is the biggest global economic power have shifted away from the US and toward China through the last 16 years. In 2000 65% of respondents thought the US was the biggest global economic power and only 10% felt it was China. By 2016 50% felt China was the biggest economic power, ahead of the US’s 33%.

In fact, this sentiment matches the data with China overtaking the US as the world’s biggest economy (according to the IMF’s PPP definition) in 2014 and pulling steadily further ahead – precisely as would be expected from an economy growing at 7% annually as opposed to the US’s 2%. When it comes to trade, the Chinese are even further ahead, accounting for 14.2% of global exports in 2015, the comparable US share was 9.4%.



Several polls show many US voters are not impressed with globalisation or free trade – but this is nothing new as there has long been a strong protectionist lobby in the US electorate and a history of Congressional bills aimed at curbing imports. The latest CBS/NYT poll shows that 53% of US voters felt the US had lost more than it gained through globalisation, only 33% felt it had gained more than it lost. 57% felt more trade tended to result in fewer US jobs, only 22% felt trade created more jobs.

When it comes to specific aspects of trade, NAFTA and free trade deals generally are often looked on with some concern. A March 2016 Bloomberg poll found that 44% of respondents felt NAFTA was bad for the US economy, only 29% felt it had been good. A 2015 Pew Survey shows more people thought free trade deals had cut wages and jobs than lifted them.



The particular focus on China in the US election debate reflects a combination of factors – a perception that it is competing unfairly, its economy is outstripping the US and the sheer scale of the US trade deficit that has opened up with China. By 2015 the US was running a trade deficit with China of \$334 Billion, double the \$US166 Billion deficit it was running with the rest of the world.

However, in reality, the US has been anything but inactive in pursuing its interests in trade with China. The US trade authorities are constantly closely monitoring Chinese compliance with its WTO obligations and acting where that is in US interests. Almost half of all anti-dumping and countervailing cases launched by the US in recent years have involved China. The US has been very active in the WTO pursuing cases where China is potentially breaking the rules. Once China joined the WTO, there were special safeguard provisions allowing the US to lift tariffs to help injured industries and, before these lapsed in 2013, they were certainly used.

Nevertheless, Mr Trump has particularly focussed on what more could be done to address trade issues with China, saying that its entry into the WTO was followed by “the greatest jobs theft in history”, China has “cheated” on its currency and China has “the greatest currency manipulators ever”.

international trade, a system based on law and negotiation rather than the flexing of unilateral power by the big trading nations. Anything that weakens the role of the multilateral trading system and the WTO – which already has enough to worry about, given the non-completion of the Doha Round of trade liberalisation negotiations – should raise concern here.

Mr Trump’s agenda, with its focus on the use of unilateral US trade measures like Section 301 cases and simply labelling China to be a currency manipulator could land the WTO right in the middle of a series of US-China trade disputes in which the former ends up on the losing side. His agenda would also mean the end of the TPP, an initiative welcomed by the Australian Government.

Australia would face an unenviable position in any heightening of US-China trade tensions as it has such close ties to both countries. China is easily our biggest export market, buying around 30% of all exports, well above the US’s 7% share. Australia has also signed free trade agreements with China as well as the US and both are major investors here. While Mr Trump has said he will replace “bad” free trade deals with “great” ones, the big trade surplus the US runs with Australia should keep it off the White House radar. We remain vulnerable to any increased US reliance on safeguard tariffs as our bilateral free trade agreement left each side able to apply them but Australian industries have not been targets of particular attention for US safeguard tariffs in recent years. .



There is no doubt that the rhetoric against globalisation, free trade agreements and corporate agendas has struck a chord in parts of the US electorate, particularly on the Republican side. The Pew Survey shows 48% of Republican leaning voters believe free trade deals have harmed them as opposed to 32% of Democrats. Even in the Democratic camp, however, Mr Sanders campaign also argued against globalisation and free trade deals and Mr Trump loses few opportunities to quote Mr Sanders on the issue, aiming to woo blue collar Democratic voters also worried by recent trends.

WHAT DOES IT MEAN FOR AUSTRALIA?

Australian and New Zealand leaders must be viewing Mr Trump’s trade policy announcements with a degree of concern.

Both Australia and New Zealand have always been strong supporters of the rules based framework for



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