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## The presidential campaign and the future of US trade policy: implications for transatlantic relations

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### **BACKGROUND**

#### **Democratic evolution vs. Republican revolution**

The 2016 presidential contest in the United States has been characterised by a particularly heated debate about the role that trade policy should play in promoting US prosperity and national interests. From the start of the campaign with the 1 February Iowa caucuses and the 9 February New Hampshire primary, the impact of past and current trade agreements on US growth, jobs, and wages – and on the global standing of the United States – has been front and centre. Donald Trump's twin hostility to trade deals and liberal immigration policies provided him with a winning path to the Republican nomination during the third week of July in Cleveland. Hillary Clinton, for her part, was able to secure the Democratic nomination the following week in Philadelphia by a comfortable margin, but only after facing down a challenge on her left from Vermont Senator Bernie Sanders, who made his opposition to all US trade pacts a key part of his appeal to voters.

Although it is true that for both parties trade policy – and US international engagement more broadly – has proved to be contentious in 2016, more continuity can be discerned among the Democrats than the Republicans. In the post-World War II era, it was the administration of John F. Kennedy that set the tone for the Democratic Party in the international economic sphere. The 1962 Trade Expansion Act empowered the executive branch – in close cooperation with Congress – to engage in trade negotiations in the GATT (the forerunner to the World Trade Organization) in order to lift US economic performance and strengthen its international economic relationships with like-minded partners, first and foremost among whom the emerging European Common Market. Crucially, the 1962 legislation for the first time called for the creation of what is known today as Trade Adjustment Assistance to help workers displaced by the changes brought on by increased foreign trade. Kennedy established the base line for a Democratic Party trade policy that balances economic growth, social inclusion, and larger geopolitical objectives.

While Hillary Clinton's decision not to support the 12-nation Trans-Pacific Partnership (TPP) once its terms were made known in October 2015 can be seen as a step away from greater US trade policy engagement, it is not inconsistent with her overall moderately pro-trade positions. As a Senator from New York, Clinton voted in favour of the free trade agreements (FTAs) with Australia, Peru, Singapore, Morocco, and Oman, but voted against a trade agreement with five Central American countries and the Dominican Republic. In her 2014 memoir *Hard Choices*, she critiqued investor-state dispute settlement (ISDS) provisions in trade agreements, which have been a source of contention in both the TPP and the ongoing Transatlantic Trade and Investment Partnership (TTIP) negotiations, saying "we should avoid some of the provisions sought by business interests, including our own, like giving them or their investors the power to sue foreign governments to weaken their environmental and public health rules..." For the globalised economy of 2016, Clinton's three tests for trade agreements – they must create US jobs, raise wages, and improve US national security – are not that different from what President Kennedy espoused for the much less integrated world of the early 1960s, and reflect the contemporary Democratic Party's desire to ensure that trade policy does not worsen income inequality and projects progressive US principles on a wider global stage.

What John Kennedy did to establish the Democrats' approach to international trade policy in 1960, Ronald Reagan did for the Republican Party 20 years later. While it is true that Reagan was not shy about using trade remedies like anti-dumping measures and countervailing duties to enforce US trade laws (mostly against Japanese automobile imports), his strong free market principles included a conviction about the virtues of free trade, as in his 1986 remark that "our trade policy rests firmly on the foundation of free and open markets. I recognise...the inescapable conclusion that all of history has taught: the freer the flow of world trade, the stronger the tides of human progress and peace among nations". During Reagan's two terms in office, the multilateral Uruguay Round under the auspices of the GATT was launched, and the first bilateral free-trade agreements in US history were signed with Israel in 1985 and with Canada in 1987.

Viewed in the light of Reagan's free trade rhetoric and policies, Donald Trump's approach to international trade has strayed dramatically from the Republican Party's core values and objectives. Trump has denounced the TPP and the 2011 US-Korea FTA, wants to pull the United States out of the North American Free Trade Agreement (NAFTA), and would impose duties of 35 per cent on imports from Mexico and 45 per cent on imports from China. Most strikingly, Trump has said he would withdraw the United States from the World Trade Organization if the Geneva-based body found US trade actions to be in violation of its provisions. Such a step would constitute a radical departure from the 70-year policy of the United States to act as a linchpin of the Bretton Woods organisations (the WTO, World Bank, and International Monetary Fund) that have supported the rules-based international economic order.

## STATE OF PLAY

### The US public and trade policy in 2016: Europe above the fray?

Given the degree to which trade has become a focus during this year's presidential campaign it is striking how little resonance the issue has with the public. According to a July 2016 poll by the Pew Research Center, trade scores toward the bottom of voters' concerns; it is on the 11<sup>th</sup> place out of 14, with the economy, terrorism, and foreign policy taking the top three places. And although the TPP has been a key focus of the campaign, in a poll conducted by Politico and Harvard University in September 2016, 70 per cent of respondents said they had not heard or read anything about the agreement. This paradox can be explained in part by the fact that in certain key battleground states like Ohio or North Carolina job losses in traditional manufacturing industries have been more marked, offering a potentially winning formula for a candidate like Donald Trump who has rightly or wrongly attributed plant closures to trade agreements.

There are significant distinctions between Democratic and Republican voters on trade policy that may signal a realignment of the two parties. If since the Reagan era Republicans have provided the bulk of Congressional support for free trade, Democratic legislators have become increasingly reserved, placing more conditions on their support for trade agreements – including stronger labour and environmental protections favoured by influential Democratic Party stakeholders such as unions and environmental NGOs. In the 218-208 vote in favour of the 2015 bill to provide the president the means to negotiate trade agreements that cannot later be subject to Congressional amendments (the so-called 'fast-track' authority), 190 Republicans voted yes out of a total of 240, but only 28 out of 186 Democrats did so. Among the public at large, however, the positions are reversed: in a Pew survey from March 2016, Americans overall favoured trade agreements by 51 to 39 per cent, with Democratic voters supporting trade agreements by 56-34 per cent, but a majority of Republicans opposing them by a margin of 53-38 per cent.

There are two ways of looking at this role reversal among Democratic and Republican voters on trade. Broadly speaking, the importance of Southern and Midwestern working-class, white voters within the Democratic coalition has declined, while the importance of urban, suburban, and minority voters has increased. A large number of Democratic voters today are engaged in a range of white-collar, services-oriented professions and have either been insulated from the impacts of increasing globalisation or have benefited from it. At the same time, the administration of US President Barack Obama has maintained a particularly activist trade policy agenda that includes two mega-regional agreements (TPP and TTIP), the plurilateral Trade in Services Agreement, and the WTO Environmental Goods Agreement. It may be that both Democratic and Republican voters in 2016 have come to identify trade agreements with a Democratic White House and are filtering their views on trade through a partisan lens. Looking ahead, if the Trump wing of the Republican Party becomes more influential, and particularly if a future President Clinton is able to rally the base of her party around a new, progressive vision for trade, Congressional majorities for future trade agreements could start to shift.

The absence of the Transatlantic Trade and Investment Partnership from the 2016 campaign debate is noteworthy. TTIP, which has been under negotiation between the United States and the European Union since 2013, is the

largest bilateral trade agreement that the US has taken part in, encompassing 45 per cent of global trade and a third of global GDP. It appears that Clinton has not raised TTIP as a campaign issue, and Trump has done so only indirectly. Given the success that Trump has had in using opposition to trade agreements to rally support, it seems clear that he would have forcefully denounced the US-EU negotiations had he thought such a step would be to his political benefit.

The fact that TTIP has been insulated from the campaign's anti-trade rhetoric cannot simply be attributed to a concern not to alienate key European allies: Trump has been outspoken in his criticisms of NATO member countries that are not paying what he sees as their fair share of the collective defence burden. More likely, the member countries of the European Union simply do not present an easy target for demonising the impact of trade and globalisation on the United States. Unlike some of the countries in the TPP, the EU member states are advanced economies with wage levels and labour, environmental, and consumer protection standards that are equivalent to or higher than those found in the US. It is also true that while the US has been running trade deficits with the EU for several years, they are small compared to the US deficit with China. In the Politico-Harvard poll from September 2016, only 17 per cent of Americans said that trade with the EU has hurt the US, significantly lower than the figures for Mexico (35 per cent) and China (43 per cent). For the moment at least, US voters do not appear to believe that trade with Europe poses much of a threat to their economic well-being.

## PROSPECTS

### Clinton's progressive engagement or Trump's new nationalism?

Whoever emerges victorious on 8 November, the key trading partners of the United States will face a period of uncertainty. Under Hillary Clinton, the country is likely to put many of its trade negotiations on hold as her administration seeks to forge a new, more progressive approach to international trade. She acknowledges the need for the United States to remain an active participant in the global economy, but wants to reform the basis for that engagement. As she stated in the first Presidential debate on 26 September, "we are 5 per cent of the world's population; we have to trade with the other 95 per cent. And we need to have smart, fair trade deals".

If Donald Trump enters the Oval Office in January 2017, his policies would upend decades of US global leadership in favour of an "America First" ideology. Trump has disparaged the rules-based international economic order, saying in a July 2016 interview that "these trade deals are a disaster...the World Trade Organization is a disaster." Trump would flout those rules – through punitive tariffs on China and Mexico, for example – in order to bring down the US current account deficit, which he believes would increase US economic growth. Rather than positioning the United States as a guarantor of international economic stability, Trump appears to welcome greater disorder in the global economy as a way to advance US interests.

The Transatlantic Trade and Investment Partnership will be a key test of the next US administration's international economic engagement. It should be possible for TTIP to be updated so that it meets Hillary Clinton's three tests for trade agreements: reformed ISDS provisions and stronger labour, environmental, and consumer protections should help satisfy her goals for US wages and jobs, while ambitious principles to constrain the role of state-owned and directed enterprises from economies led by authoritarian governments would help serve her national security test. Some of these reforms might also help to make TTIP acceptable to a wider group of stakeholders in the European Union, where the negotiations have been attacked for placing corporate interests ahead of the needs of citizens.

The Obama White House has viewed the two mega-regional trade agreements at the centre of its trade agenda, TPP and TTIP, as platforms or building blocks for updating global trade rules. Particularly under a scenario where the TPP does not go forward, TTIP would become the most important vehicle for strengthening liberal internationalist economic principles in the face of a stalemate at the WTO. In order to do so, the US and the EU would need to keep the door to TTIP open for other countries to join so that the agreement acquires critical mass. Canada and Mexico – the two NAFTA partners of the United States – as well as the four EFTA countries and Turkey are all contemplating eventual membership. The US and the EU may wish to consider widening the potential membership to important, like-minded economies in South America such as Brazil, Argentina, and Colombia.

However, the decision by the United Kingdom to leave the European Union has sharpened differences between the two candidates on transatlantic economic relations. Broadly speaking, Hillary Clinton appears to share the perspective of the Obama White House and Democrats in Congress that the European Union is a natural and strategically important partner on a range of issues from trade to global warming to terrorism. In this view, the

"special relationship" with the UK based on history and culture has value, but needs to be balanced against the EU's more important role in advancing key US national interests. This school of thought helps to explain Obama's notable comment before the Brexit referendum that the UK would move "to the back of the queue" for a US trade agreement were it to leave the EU.

Mainstream Republicans in Congress also believe the EU is a key economic and strategic partner for the United States, although their view is somewhat tempered by an affinity with the ruling UK Conservative Party that took root during the Reagan-Thatcher years. While the Clinton campaign voiced support for the UK remaining in the EU, Donald Trump welcomed Brexit, saying in August 2016 "I was very supportive of their right to do it and to take control of their own future". Immediately after the referendum Trump stated that "the UK has been such a great ally for so long, they'll be always at the front of the line". And in July Trump promised "never to sign any trade agreement that...diminishes our freedom and independence. Instead, I will make individual deals with individual countries". Clearly, a US-UK FTA would jump to the front of Trump's queue, while TTIP would be placed on indefinite hold.

With Hillary Clinton in the White House, the European Union would need patience as her administration takes the time to put its imprint on trade policy, including the Transatlantic Trade and Investment Partnership. Once that is accomplished, the United States should become an attractive international economic partner for the EU. With a Trump presidency, the EU would need that patience – but also boldness in equal measure. If the United States under Donald Trump took a holiday from its historical – and vital – leadership role in the global economy, the world would become less stable and the EU would have to assume much greater international responsibilities. That would first require, however, that those EU political leaders who are currently tempted to view trade policy as a way to indulge populist fears of their citizenry pivot – sooner rather than later – to a statesman-like defence of the global economic order.

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