

RTA EXCHANGE NEWS DIGEST

VOL. 10 JANUARY 2017

INTRODUCTION

For many years, trade policy makers and negotiators carried out their tasks without much notice from the rest of the world. This is changing rapidly, as trade issues are being debated around the world, as never before. They often make the “*une*” of newspapers,¹ and are dealt with on a daily basis as part of the political debates in most countries.

It is not necessarily for the good reasons, though. Trade issues gained notoriety last year in the UK with the referendum on EU membership and, more recently, with the irruption of Donald Trump in US politics and his strong views on the impact of open trade and trade agreements on the US economy.



Source – The AFP

In the current debates, open trade is often being equated with open borders and these with illegal immigration. In the UK, still trying to justify a decision that took by surprise many Britons, and may have dire consequences for multinational companies operating in the UK, the need to control the flow of immigrants is openly recognized.

In the United States, the first week of President Trump’s Presidency was flooded with Executive Orders, some of which were aimed at radically changing the US approach to trade agreements, i.e. deciding not to be part of [the Trans-Pacific Partnership \(TPP\)](#), and planning to re-negotiate [the North American Free Trade Agreement \(NAFTA\)](#). With regards to immigration, some Executive Orders referred to the building of a wall on the border with Mexico, and new restrictions on the entry of people coming from some war-torn, predominantly Muslim countries.

It is still too early to know the full consequences of these decisions. We seem, however, to be in a transition from an era where trade agreements and open markets were embraced as rational

¹A French word that refer to important news that are placed on the first page of newspapers.

policies to build a better, more prosperous and equitable world, to one where trade relations are looked at with suspicion and ready to be set aside.

As Phillip Steven wrote in the Financial Times President Trump decisions cannot be ignored. The US is the world's sole superpower. Its role as the linchpin of the geopolitical order cannot be wished away. Washington is the reference point for everyone else's foreign policy and a first take from friendly foreign ministries is that Mr Trump's [economic nationalism](#) threatens to fracture the open international trade system.



Source - Getty Images, Mrs. May and Mr. Trump in the White House

Referring to Prime Minister Theresa May relationship with the new US president, Mr. Steven sees her [travels to Washington](#) carrying the hope, if not the conviction, that President Trump does not really mean it when he tramples on the principles and values that

[have underpinned post-war US leadership](#). In his view, "Britain's decision to leave the EU blows up the European pillar of its foreign policy, and Mrs. May cannot afford to see the US pillar collapse into the Atlantic".

In the United States, President Trump reiterated in his [inauguration speech](#) the views he held during the elections, that the US had succeeded only in making foreign countries rich at the expense of its own citizens, while its own wealth and confidence had dissipated over the horizon. Now it was time to put America first, the president said, declaring that the bedrock of the country's politics would be ["total allegiance to the United States of America"](#).

Mr Trump's "America first" mantra marks a stark break from the US post-war role as the standard-bearer of liberal democracy across the world and the centrepiece of the Western alliance. It sends a negative message to America's traditional European and Asian allies at a time when populism is on the rise.

To these issues we revert more extensively in the following sections of this RTAs News Digest, which focus, specifically, on the possible "new" direction of US trade policy, the dilemmas facing the UK with its Brexit initiative, and the future of NAFTA under a critical period of US and Mexico bilateral relations.

TOWARDS AN “AMERICA FIRST” TRADE POLICY?

“From this day forward, a new vision will govern our land. From this day forward, it's going to be only America first, America first.” With these few words, included in his inaugural speech, Donald Trump resumed what is expected [to be the focus of his presidency](#). The implications for US trade policy, including RTA agreements are clear, and they should come as no surprise, as he repeatedly referred to them during the electoral campaign.

During President Trump’s first full day in office, he signed an Executive Order formally ending the United States’ [participation in the TPP](#). As indicated by The Washington Post this decision served to signal that Trump’s tough talk on trade during the campaign will be carried over to the new administration.

The move was President Trump’s [first major trade policy action](#). President Trump took further measures by vowing to renegotiate the NAFTA, and declaring that [“If our partners refuse a renegotiation that gives American workers a fair deal, then \(he\) will give notice of the US’ intent to withdraw from NAFTA.”](#)

This sends a clear signal that President Trump will make trade protectionism [a central part of US economic policy](#). As reported by the Financial Times, his signing of the TPP related Executive Order came shortly after he warned a group of American business executives that he would place a “very major” border tax on companies that moved production overseas and export products back into the US.



Source – The AFP

Two days after these decisions were taken. President Trump signed another Executive Order calling for [the construction](#) of a border wall with Mexico. Although Congress would have to appropriate [new funds for its construction](#), which some have estimated would cost tens of billions of dollars; President Trump directed federal agencies to use existing funds to start the wall.

These decisions immediately drew [strong responses](#). As was to be expected, they prompted Mexican President Enrique Peña Nieto to cancel his plans [to visit the White House later this month](#), and in a video message delivered shortly after President Trump announced his actions on the wall, the Mexican President said that future steps would be taken [in consultation with the country’s lawmakers](#). “I regret and condemn the US decision to continue with the construction of a wall that, for years now, far from uniting us, divides us,” he said.

Former USTR Mike Froman, a strong proponent of the TPP, told the Financial Times that President Trump’s vow to abandon the TPP deal [risked driving more US allies into China’s embrace](#), and would also amount to the US forgoing its place as a Pacific power.

On the other hand, while opening fire against the TPP and NAFTA, President Trump is promising the rapid conclusion of a trade agreement with the UK to help the government of Theresa May make Brexit a “great success”. “We’re going to work very hard to get it done quickly and done properly. Good for both sides,” President Trump told The Times and Germany’s Bild in an interview published in late January.

This will not be that easy, though. Still a member of the EU, the UK is technically not allowed to negotiate a trade agreement with another country. But the bigger question is just what the nitty-gritty details of the UK’s future economic links with Europe will be. What’s more, the United States is nearly four years into its own negotiation with the EU over the TTIP agreement on which President Trump has been rather silent.

In the words of Senator John McCain, the ultimate impact of Donald Trump’s announced intention to withdraw the United States from the TPP trade deal is yet to be seen. But it is likely to be viewed by leaders across the region as a sign of America’s retreat from [the responsibilities of world leadership](#). More importantly, the agreement was designed as a model for future trade agreements by focusing on non-tariff barriers to trade, pursuing regulatory reform in areas such as intellectual property, labour and environment laws, and limiting government support for state-owned companies.

BREXIT MEANS...LEAVING THE EU SINGLE MARKET

Oxford Professor Timothy Garton Ash started a recent article in The New York Review of Books in a hypothetical mood. “Had I been cryogenically frozen in January 2005, he said, I would have gone to my provisional rest as a happy European. With the enlargement of the EU to include many post-Communist democracies, the 1989 “return to Europe” dream of my Central European friends was coming true. It was amazing [to travel without hindrance from one end of the continent to another](#), with no border controls and with a single currency in your pocket.

“Cryogenically reanimated in January 2017”, he continued, “I would immediately have died again from shock. For now there is crisis and disintegration wherever I look: the Eurozone is chronically dysfunctional. There is no European constitution and the glorious freedom of movement for young Poles and other Central and Eastern Europeans has now contributed substantially to a shocking referendum vote by my own country, Britain, to leave the EU altogether.”

“Brexit means Brexit” said repeatedly UK Prime Minister Theresa May since taking the oath of office more than six months ago. How to go about it, however, [remained mostly undefined](#). Prime Minister May had seemed indecisive and ambiguous about how this might be achieved.

That changed with her Brexit speech on 17 January, when she [made clear](#) that Britain intends to leave the single market, the central feature of the European Union historic effort to eliminate all barriers to trade across the union and to uphold the free movement of goods, services, capital and — the one Britain could not swallow — people.



Source - Carl Court, Getty Images, Britain's Prime Minister Theresa May leaving her office

So [Prime Minister May's speech](#) is to be welcomed, according to the New York Times, for spelling out her [government's intentions on the core issues](#) associated to Brexit before it formally triggers the two-year exit process, which is expected to be done by the end of March.

In her long-awaited speech, she referred to [what she thinks is the meaning](#) of the June 2016 referendum. The British people, according to her, “voted for change. They voted to shape a

brighter future for our country. They voted to leave the European Union and embrace the world.” In Prime Minister May's view, the result of the referendum was not a decision to turn inward and retreat from the world. “We are leaving the European Union, but we are not leaving Europe”.

In moving forward, the UK government intends to negotiate a new partnership with the EU. In Prime Minister May's vision, the UK should use this moment to build a truly “global” Britain, and as a priority, the UK will pursue a bold and ambitious free-trade agreement with the European Union. This agreement should allow for the freest possible trade in goods and services between Britain and the EU's member states, and should be negotiated by the time the two-year Article 50 process has concluded.

She concluded her remarks by insisting that “the UK does not approach the (Brexit) negotiations expecting failure, but anticipating success. [And let that be the legacy of our time](#), so that when future generations look back at this time, they will judge us not only by the decision that we made, but also by what we made of that decision.

A few days after Prime Minister May's speech, another important decision regarding the Brexit process was adopted, this time by the UK Supreme Court, which ruled that [the British Parliament must vote](#) on whether the government can start the Brexit process. The judgement means the UK cannot begin talks with the EU, i.e., invoking Article 50, until MPs and peers give their backing.

Although this is expected to happen in time for the government's 31 March deadline, the parliamentary debates have led Prime Minister May, under pressure from the Labour Party, the Scottish nationalists and her own backbenchers, [to agree to publish a white paper](#) setting out the government's plans for Brexit in greater detail. She had previously played down the need for a white paper, arguing that her speech at Lancaster House provided sufficient clarity on her plans for leaving the EU.

Apart from the Supreme Court ruling, though, different views abound on the timing, convenience and strategy regarding the Brexit process. Few share Mrs. May optimism, though. As pointed out by Phillip Stephen in the Financial Times, Brexit is the biggest upheaval in the nation's political and economic life since the end of the Second World War. Prime Minister May emphasised the vast new opportunities for a nation now rechristened "Global Britain". Yet, no one should doubt the cost – economic and geopolitical – of the proposed break with the EU.

Prime Minister May also went to Davos and told participants at [the World Economic Forum](#) that Britain remains [committed to free trade and globalization](#). She also warned about being complacent regarding inequality and helping to feed a populist reaction from those left behind. "If we are to make the case for free markets, free trade and globalization, as we must, those of us who believe in them must face up to and respond to the concerns people have."

A growing number of business leaders and international bank executives at Davos voiced their concerns after Prime Minister May's announcement that Britain would withdraw from the EU's single market after Brexit. This would hinder their ability [to operate global businesses](#) from UK-based headquarters, they said.

Guy Verhofstadt, the European Parliament's negotiator for Britain's exit, [wrote in The Guardian](#) that "it is an illusion to suggest that the UK will be permitted to leave the EU but then be free to opt back in to the best parts of the European project." Leaving, he said, will be "a sad and exhausting process."

In Prime Minister May "vision", a post Brexit "Global Britain" will reprise its historical place as an international trading hub thanks to a web of new trade agreements that her government plans to negotiate in the coming years. However, by deciding to abandon the EU's single market and its customs union, she is opting for what is arguably the most complicated path.

Regarding a possible trade agreement between the UK and the US, while President Trump says he wants to do such a deal quickly, he and Prime Minister May's government could be in for a rude awakening. When the US and EU launched the TTIP talks in 2013, the pledge from politicians was to try to secure a deal quickly. Officials in Washington even promised to get them done on "a single tank of gas [petrol]". But after 15 rounds of negotiations a TTIP deal is far from complete and the joke in trade circles is that it ran out of gas long ago — unless, of course, negotiators switched to an electric car.

Finally, according to The Economist, the two sides of the Brexit debate do not agree on much, but they agree on this: if Britain fails to reach a trade deal with the EU it will have to revert to the "WTO option." This involves trading only under rules set by the World Trade Organisation. The "leave" camp is happy with this idea; "remainers" less so.

But the awkward truth is that the WTO option is not much of a fall back. Becoming an independent WTO member will be tortuous. Britain is already a member of the WTO, but operates through the EU. To become a fully independent member, Britain needs to have its own “schedules”, WTO-speak for the lists of tariffs and quotas that it would apply to other countries’ products.



Source - Janek Skarzynski, the AFP, Sunset in Poland

Alan Winters, of the UK Trade Policy Observatory at the University of Sussex, says that, in theory, it would not be too hard for Britain to acquire its own schedules. Any change would require the acquiescence of other members, but using a “rectification” procedure, the government would simply cut “EU” at the top of the page and paste in “UK” instead. Bigger changes—say, raising tariffs on certain goods—might require a more ambitious “modification” and more thorough negotiations. The simplest course, then, would be for Britain to keep its schedules as they are under the EU, including the “common external tariff”, applied uniformly by EU members to imports from third countries. The government has recently hinted as much. This avoids diplomatic wrangling. But simply to readopt EU-approved commitments hardly looks like “taking back control,” and could lead to other problems.

Former EU Commissioner, Chris Patten once remarked that for [all its decades of membership](#), Britain had never really joined the EU. What the former Tory cabinet Minister meant, most likely, is that it had never properly grasped the psychology of European integration.

Summing up, Britain – “global Britain” - is heading towards a full break from the EU, which entails leaving the single market, in order to have full control over immigration; and seeking to preserve, as far as possible, barrier-free access to EU markets for UK exports of goods and services. However, it will take years to know whether this was a wise choice, and the issues surrounding the Brexit debate will probably continue to divide British society for years to come.

NAFTA

Donald Trump “the candidate,” and President Trump did not spare words nor deeds in questioning another important trade deal: NAFTA, which went into force in 1994. It has been routinely blamed by President Trump for the loss of US jobs, as he called it [“the worst trade deal](#) in the history of this country [US]”.

On the first full working day of his administration, President Trump put neighbouring Canada and Mexico [on notice](#). He informed their leaders of his plans to renegotiate the NAFTA, and “If our partners refuse [a renegotiation that gives American workers a fair deal](#), the president will give notice of the US’s intent to withdraw from NAFTA,” the administration said.

Renegotiating NAFTA will not be an easy task, though. According to the Financial Times, these are the major points to keep in mind. First, the economic stakes are enormous; for many companies, the US pulling out of NAFTA would mean having to unwind long-term investments. Second, President Trump has threatened repeatedly [to impose a border tax of 35 per cent](#) on companies that locate factories in Mexico rather than the US, but a “border tax” would violate the terms of NAFTA as well as US’s obligations under the WTO.



Source – Reuters, a newly-built section of the US – Mexico border wall at Sunland Park, opposite the Mexican border city of Ciudad Juarez

Third and finally, Mexico would be in a very weak position should a re-negotiation of NAFTA get under way. The US and Canada, which remains the US’s top export market, have already had [a bilateral agreement signed in 1987](#) that is traditionally considered a precursor of NAFTA. That means that, should President Trump rip up NAFTA, Mexico could find itself in the most precarious position of the three NAFTA signatories.

According to El Economista, Mexican president Enrique Peña Nieto y Canadian Prime Minister Justin Trudeau confirmed that the relations with the US, as well as the bilateral relationship between them are equally important and [agreed to unite their efforts to continue pursuing the integration](#) on the North American region.

Meanwhile, Ildefonso Guajardo Villarreal, Mexican Secretary of Economy said that if Mexico does not succeed in [obtaining major benefits in the course of a re-negotiation](#), it might consider

withdrawing from NAFTA. The former president of Mexico Ernesto Zedillo² in his turn called the NAFTA renegotiation a “waste of time” unless President Trump presents a [clear and serious agenda](#) that would be consistent with interests of both the US and Mexico. He pointed out that “the time has come to admit that the actions of the new administration have closed off, at least for the foreseeable future, the possibility of any agreement being achieved through dialogue and negotiation that could satisfy the interests of both parties.

“President Trump’s aspiration to renegotiate NAFTA”, Mr Zedillo added, “stems from the incorrect idea that the trade balance between the two countries originates in Mexican advantages built into NAFTA and that a trade balance, if positive for Mexico, means the automatic transfer of jobs from the US to its southern partner. Both concepts are mistaken.

The conflict worsened when President Trump appeared to be serious about his comments during the presidential campaign’s idea to build a wall on the US Southern border. The White House announced at the end of January that president Trump is considering [imposing a 20% import tax on all imports from Mexico](#) to finance the construction of the wall. The Mexican president subsequently decided to suspend an earlier planned official meeting in Washington after President Trump tweeted that “if Mexico is [unwilling to pay for the badly needed wall](#), then it would be better to cancel the upcoming meeting.”

While the talks about the NAFTA re-negotiation continue, Chris Collins, a trade-sceptical Republican from New York and acted as the congressional liaison between lawmakers and Donald Trump’s presidential transition team, is calling for the US [to work out a one-on-one trade arrangement with Canada](#) instead of updating the three-party NAFTA. He said the northern and southern US neighbours don’t belong in the same trade pact and should not be mixed together.

As underlined by Jorge Castañeda,³ the cancellation of President Peña Nieto’s visit to the United States, and the rise in tensions between the two countries are a sad and serious affair. Sad, because no Mexican wants a breakdown in bilateral ties and five successive presidents have pursued a new course with the northern neighbour, [putting behind them the apprehensions](#) and resentment of the past. And serious, because in tying itself to the US through the NAFTA agreement, among other important initiatives, Mexico has placed all its eggs in one basket: North America, free trade, democracy and respect for human rights.

Of course, President Trump may wish to go beyond the cancellation of NAFTA and try to impose additional barriers on trade with Mexico. In this case Mexico should be ready to use all legal instruments possible, particularly those provided by the World Trade Organization, to contest any arbitrary and illegal action. President Trump could even entertain the withdrawal of the United States from that central arbiter of international trade disputes, at which point the Mexican issue would become a global problem that would have to be confronted by the full international community.

² Ernesto Zedillo was president of Mexico from 1994 to 2000.

³ Jorge G. Castañeda was Mexico’s foreign minister from 2000 to 2003, is now a professor at Columbia University.



Source - Reuters

When Mexico strongly rejected the idea that it would pay for the wall, President Trump's spokesman, Sean Spicer, went out and [declared](#) that a border tax on Mexican products would, in fact, pay for the wall. This led Nobel laureate and New York Times columnist, Paul Krugman, to remind the new US administration that [“tariffs aren't paid by the exporter. With some minor qualifications, basically they're paid for by the](#)

[buyers — that is, a tariff on Mexican goods would be a tax on U.S. consumers. America, not Mexico, would therefore end up paying for the wall.”](#)

“Also, that wasn't the only problem. America is part of a system of agreements — a system we built — that sets rules for trade policy, and one of the key rules is that you can't just unilaterally hike tariffs that were reduced in previous negotiations. If America were to casually break that rule, the consequences would be severe. The risk wouldn't so much be one of retaliation — although that, too — as of emulation: If we treat the rules with contempt, so will everyone else. The whole trading system would start to unravel, with hugely disruptive effects everywhere, very much including U.S. manufacturing”.