**Peter Friedmann’s View from Washington, DC - November 2017**

What’s Really Happening with International Trade?

Like just about everything else these days, our international trade agenda has become highly politicized.  Members of Congress who used to be pro-trade and no longer, and vice-versa. Maintaining or challenging existing trade agreements, threatening to exit current agreements, imposing our own tariff barriers to protect domestic US industries, appear, more than ever, to have become weapons in our foreign policy agenda.

But are our trade relations as contentious as they first appear, or as the media reports? Not really. We do have some tough issues to resolve, but things are not nearly as bad as some would like us to believe. Here’s a brief look:

NAFTA - US, Canada, Mexico Free Trade Agreement (since 1994)

1. Canada

While China gets all the press, the country with which United States has long had more conflicts than any other country, is our next-door neighbor Canada. Currently there are plenty of disputes on the plate.

* . The United States would like access into the Canadian dairy market. Canada has been vigorous in defending its domestic dairy industry to the extent that it is willing to violate NAFTA and WTO rules in order to do so. In the past, the US has not been willing to press Canada on this, or take it to the World Trade Organization for decision; but this Administration may feel differently.
* makes commuter jets in Québec. It has been slapped recently with 222% import duties by the United States. The government of Québec clearly grants massive subsidies, which Boeing believes skew the market against Boeing's interests. Again, in the past the US has been unwilling to contest this; but this Administration may feel differently.
* The dispute (US claims Canada is subsidizing its lumber industry through low costs of timber) has been raging for over 20 years, it continues unabated. Nothing new here.

   2. Mexico

While Pres. Trump focuses much attention on Mexico, Canada is actually the bigger challenge in the NAFTA negotiations, with tough issues, listed above, and others. With Mexico, we have some intellectual property issues, issues relating to access of Mexican trucks on into US commerce, and rules of origin for automobiles assembled in Mexico for the US market. Our biggest challenges with Mexico are immigration policy, and that is not really part of the NAFTA negotiations, although President Trump is trying to link them. My assessment is that despite all the public finger-pointing, threats to walk away now or in 5 years, negotiators for the three countries, who have already resolved 70% of the issues, will continue working and NAFTA will be continue, with relatively minor tweaking.

China

China gets all the attention when it comes to trade, as politically it's pretty safe for both Republicans and Democrats to point fingers at China for all sorts of trade, human rights and economic violations and military expansion. However, despite threats to cut off all trade or China, most in the trade community here in Washington DC believe that these threats will not be implemented. The big question is how to judge the pricing of US imports from China. Is China a market economy or is it a nonmarket economy which would mean that it is being highly subsidized (through government provision of utilities, monopolies, direct subsidies, controlled labor costs, etc.) The US considers it to be a non-market economy, so we can expect a continuing flow of tariffs and other punitive measures on imports from China. Currently aluminum foil/sheets, solar panels, steel products are among those subject to the  US’s International Trade Commission's recommended duties designed to restrict imports and protect domestic US industries from competition. At this point, while Pres. Trump has threatened China, he has not started a trade war. For example, while protective duties have been imposed on solar panels from China, they are very modest compared to those sought by the petitioning US solar companies.

Japan.

Pres. Trump is currently seeking to engage Japan in a US–Japan bilateral trade agreement. Since the TransPacific Partnership was jettisoned, and there were some advantages for the United States relative to Japan in the TPP, the idea is to re-create the TPP provisions, but in a treaty just between the United States and Japan. There is a real possibility of this becoming a successful negotiation particularly if the Japanese car makers in the United States would agree to a higher US domestic content above the approximately 50% that is statutorily required in order for an automobile to be considered US made (thus avoiding most import duties). What this means is that fewer parts of the Japanese brand automobiles assembled in the United States, would be imported from Japan, more would be sourced here in the United States. Further, the US wants Japan to relax its incredibly difficult import process for autos, which effectively shuts out much US auto sales there. Should Japan be willing to engage in this sort of swap, it is likely that Japan would open its market to many other US exports, particularly in agriculture area. With Japan feeling threatened by China's economic growth and military expansion, and North Korea's bellicose military threats, it may feel it needs the United States on both accounts. So it's possible there will be a US-Japan bilateral treaty which would be beneficial for US exporters and importers.

KORUS:  Korea–US trade agreement

Pres. Trump has been vocal about the need to renegotiate many of the trade treaties that were negotiated by his predecessor. The US- South Korea trade agreement is no exception. Korea has a significant balance of trade surplus with the United States. The President’s threat to walk the United States away from the agreement is opposed by many industries in the states most important to his election, namely in the Midwest and namely agricultural exporting states. Today with the US and North Korea in heightened adversarial positions, we simply do not see that the United States is going to undermine the relationship with South Korea. We do see that South Korea, more dependent upon the US than ever for military protection, may be amenable to some slight revisions in the US-Korea trade agreement, particularly around reducing barriers which currently limit imports of US automobiles.

Vietnam

As far as United States is concerned, the crown jewel of the TransPacific Partnership would have been the greatly expanded trade relationship with Vietnam. Under the TPP, import duties for products from Vietnam entering the United States were scheduled to be eliminated over the course of the next 11 years. And Vietnam committed to open its market to US products, particularly agriculture, insurance services, etc. Now, the United States would like to reconstruct many of those provisions from TPP, in the context of a US-Vietnam trade agreement.  The President and the Secretary of Commerce have both expressed interest in pursuing this. Will Vietnam bite?

So, lots of hyperbole around trade, but in the end, just like much of the current political agenda, there will be less change from the status quo than may fear, or that many seek.