# MARCUS NOLAND

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**Nicolas BARRE**

We are going to talk about international trade and investment and I think that it is a fascinating time to talk about these issues. As you know, free trade is a polarising issue in many countries and for many people, trade is not synonymous with prosperity. We talked about that a little earlier this morning, when we talked about the election of President Trump, Brexit, and populism. I saw a statistic for last year from the International Labour Organization showing that 30% of workers, that is around 170 million, were employed by exporting firms in 32 countries, but it is interesting to note that this number is lower than before the financial crisis.

We are going to talk about President Trump, of course, protectionism, China and maybe also, emerging markets. After all, we are here in a country for which international trade is key. It is very important for Morocco and for its development to be involved in international trade.

I would like to start with you Marcus. You are Executive Vice President of the Peterson Institute for International Economics in Washington. It is a very well-known think tank in Washington, and I give you the floor.

**Marcus NOLAND**

Thank you very much. It is an honour to be here this afternoon. What I am going to do is talk about Trump administration international economic policy. I think that the value added is some discussion of the specifics of process protection that is underway. Then, I will make an argument about why the next couple of years may be particularly dangerous, due to the interaction of Trump administration macro and trade policy.

First, I want to make a really simple point; it is an explicitly protectionist policy. Last night, I went back and reread Trump's inaugural address and it contains the following passage: 'We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength.' That statement is a continuation of campaign themes. There was a focus on trade deficits, including bilateral deficits, and two other themes which, from a Trump standpoint, provide both an explanation for the trade deficit and a location for the solutions. One was the issue of currency manipulation; the other was so-called disastrous trade agreements. There has been continuity post-inauguration and he has undertaken some actions that have tightened up government procurement, made it harder to get visas to come to the United States, and there has been an aggressive use of contingent process protection. I will go into detail about that in a moment. Finally, as we have heard from other speakers, there has been a withdrawal from the TPP and the renegotiations under threat of abrogation of KORUS and NAFTA.

What about that new protection? The United States, like other countries, has laws on anti-dumping and countervailing duties, but the Trump administration has been distinguished by two characteristics. One is the use of rather obscure parts of US trade law, including the global safeguards, which does not even require injury to domestic industry, and the use of Section 232 on national security protection. Moreover, the second characteristic is the Trump administration has been unusually prone to self-initiate cases. That matters, because historically if the government self-initiates the case rather than waiting for a domestic firm to complain, there is a higher likelihood of protection actually being applied.

If you simply take the cases from the first 100 days of the Trump administration, and assume - and this is an assumption - that protection is actually applied, the share of US imports under protection doubles. South Korea would be the worst affected. The problem for a country like South Korea is that while some of these policies are aimed at China, South Korea produces products such as solar panels, steel and washing machines, that get caught up.

Essentially, South Korea is collateral damage. The single biggest change in protection would be Canada, because of the perennial softwood lumber case.

As somebody mentioned yesterday, the real problem with this is that given the United States' prominence in the system, there is a likelihood of emulation by other countries. As we have heard, the Trump administration is also scrapping trade agreements. We are renegotiating NAFTA. Richard Cooper pointed out yesterday, that some of that is a constructive agenda updating, but what Richard did not mention was the bad ideas, some of which we heard about this morning. A five-year sunset provision that basically undercuts the idea of having a trade agreement, because it means that companies cannot invest with any certainty about what the rules of the game would be. A tightening of rules of origin, particularly in automobiles. The rules of origin that the United States is proposing for automobiles are designed to disrupt the existing supply chains. The North American auto market is highly integrated and if these rules go through, it will introduce significant inefficiencies into the North American market. The long-term effect will be the movement of production from North America to China. And as we heard earlier this morning, there are these strange arguments about trade balances.

If the renegotiation fails and NAFTA is abrogated, the snapback for Canada, is to the US-Canada FTA. You can imagine Canada and the US basically working out a deal that modernises that agreement, but for Mexico the threat is much more existential. There would be real impact in terms of production in Mexico and strangely, from a Trump standpoint, the likelihood would be a depreciation of the peso and an increase in the bilateral trade imbalance, not a reduction. The Korea Free Trade Agreement was slated for abrogation, but fortunately Kim Jong-un stepped in with the sixth nuclear test and took that off the agenda. However, the issue has simply been pushed to the back burner and there is still the possibility of abrogating KORUS.

In anticipation of the election last year, I looked at the impact on the United States with some colleagues at the Peterson Institute, modelling trade wars with China and Mexico. The affects are significant and not uniform across the states. Capital goods industries would be the worst hit, because of a decline in domestic investment associated with the trade war, as well as a reduction in exports of those goods. What is really interesting, is that there are large employment losses in non-tradables, and because of the pattern of hiring in those sectors, what we find is that most of the US casualties in a trade war would be among the most vulnerable people in society. The affects of a trade war in the United States would be regressive, and poor Washington would be the worst affected state.

We also looked at some scenarios of asymmetrical forms of retaliation. This included things like China no longer buying aircraft, imposing an embargo on soybean imports, or instructing state-owned enterprises not to buy US business services. We have also looked at cases if KORUS was abrogated, which would include the loss of preferences in the beef market to countries like Australia, Canada, New Zealand, which we expect would mean the elimination of US beef exports, at least in the short run, as well as the loss of business services to EU competitors.

In the case of aircraft, production is highly localised and certain geographical areas are hit hard. In the case of business services, the areas that are hit by either of these actions are basically a map of the high-tech urban areas of the United States.

From a political economy standpoint, possibly the most interesting part is the two agricultural cases. If you look at a map, there is a patch of green that runs from Mississippi, through Arkansas, Tennessee and into Missouri. That is the area of impact from a soybean embargo by China. The reason it is very interesting is twofold. First of all, if you are in Seattle, for example, and you lose your job, it may not be good, but you are losing it in the context of a large urban labour market with public transportation. If you lose your job in one of those contiguous rural counties, you are in real trouble. The direct plus indirect job losses in some of these counties could be extraordinary: as high as 25% in one case, and in excess of 10% in a dozen more. The same is true of the beef case where the plains states would be affected. This is interesting because those areas are represented by Republicans and if the Trump administration is to be constrained politically, it is likely to come through agricultural interests in the United States.

However, the real threat is the interaction between the macro policy and the trade policy. For a variety of reasons, the United States is likely to adopt an expansionary fiscal policy, which is going to lead to a growth spurt, widening budget and trade deficits, and appreciating exchange rates. Then you face the prospect of the Trump administration reaching for protection, trying to square the circle with that increasing trade deficit. What we could get is a very nasty version of the first Reagan administration, which in the infamous words of the then Secretary of Treasury, James Baker, imposed more protection than any US presidential administration since Herbert Hoover. This is a time well-known for voluntary export restraints, the current US Trade Representative, Mr Ambassador Lighthizer, was actually one of the negotiators and is well-versed in this kind of action. There is one huge difference. In the context of the Cold War, the United States was the ultimate political and guarantor of Japan and however grudgingly, at the end of the day the Japanese were going to go along with American demands in the trade policy area. Needless to say, the relationship between the United States and China today, could not be more different.

Just to recapitulate, this is a new policy, a break from the past. It is explicitly protectionist and it is underway. Some of these decisions have not been made yet for legal reasons, but they will be and the conflicts between trade and macro policies are going to make it worse, to the detriment of the United States and all its trade partners. Thank you.

**Nicolas BARRE**

Thank you, Marcus. Maybe we will discuss these points later, to know whether this new policy is, as you said, is here to stay or if there are prospects for change.