

# THE WALL STREET JOURNAL.

## Trump's Pacific Trade Retreat

**The failure is a strategic win for China and a defeat for Japan's Shinzo Abe.**

January 23, 2017

President Trump fulfilled a campaign promise Monday with an executive order formally withdrawing from the 12-nation Pacific trade pact, and that was the easy part. Now he'll have to deal with the fallout, which includes new doubts about U.S. economic commitments and strategic gains for China.

The Trans-Pacific Partnership (TPP), negotiated and signed by President Obama, was already on life support as Mr. Trump and Hillary Clinton campaigned against it. Mr. Obama hoped to push it through in the lame-duck Congress, but after ignoring trade for so many years as President his persuasive powers were nil.

Mr. Obama stressed the deal's strategic importance as a counter to Chinese soft power in the Pacific, and he's right. But he never made a consistent case for the deal's economic benefits, and Mr. Trump was able to use TPP as a political whipping boy. The agreement has flaws, with many special carve-outs for this or that country, but on the margin the trade experts at the Cato Institute consider it a net economic plus for the U.S.

What now? Mr. Trump isn't interested in new multilateral pacts, but China is. Beijing is pitching a rival to TPP, the Regional Comprehensive Economic Partnership, and many countries in Asia will sign up as they observe the U.S. walking away. Malaysia, the Philippines and Thailand are already moving by degrees from the U.S. toward China, and others will begin to wonder about the U.S. commitment to the Western Pacific region.

The U.S. trade trend has already led to the water-into-wine miracle of Chinese President Xi Jinping preaching the benefits of free trade at the annual global gabfest in Davos last week. The problem is that China preaches free trade for its exports but too often practices something else at home.

The Chinese impose multiple regulatory barriers to imports. They subsidize overproduction in commodity goods like steel that hurts foreign producers and workers. They use political measures to restrict foreign competition so they can build "national champions" in industries like computer chips. In short, the Chinese continue to practice a mix of free trade and mercantilism, and the Asian trade pact will no doubt seek to continue that pattern.

TPP would have spread the better Western model of a rules-based trading system. Mr. Trump and his advisers are targeting China for a U.S. trade-policy renegotiation, albeit with few details about their strategy or their ultimate goal—beyond reducing the U.S. trade deficit in goods with China.

The irony is Mr. Trump would have more negotiating leverage with TPP in his pocket. If China resisted trade-opening concessions at home and a trade war results, the U.S. could rely on TPP countries for alternative component suppliers and consumer goods. Now China can use the Asian trade pact as leverage with these U.S. trading partners.

Mr. Trump will need a reassurance strategy with Japan in particular. Prime Minister Shinzo Abe has staked his government on faster growth from economic reform. TPP is supposed to be his battering ram to overcome domestic political opposition to breaking up Japan's economic cartels. Now he'll need a Plan B.

Mr. Trump would be wise to consider taking the bones of TPP and building it into a U.S.-Japan bilateral trade deal. In any event, Rex Tillerson will have to make Tokyo one of his first overseas visits as Secretary of State.

\*\*\*

The larger shock in TPP's failure is the symbolism of the U.S. withdrawing from global trade leadership. For nearly 90 years since the Smoot-Hawley Tariff, and especially since the end of World War II, the U.S. has championed a world of freer markets and liberal trade. No doubt all Americans haven't benefitted equally, but the free-trade consensus held through the high-growth 1980s and 1990s. It fell apart in the slow-growth Obama era.

The question is what will fill the trade vacuum if the U.S. resorts to its own form of mercantilism. TPP's failure was baked into financial markets so it's no great economic shock, and perhaps the Trump Administration will step back from some of its worst trade rhetoric.

The economic damage will come in the months ahead if trade becomes a game of beggar-thy-neighbor self-interest in which national success is measured by a simple trade surplus. Then we'll look back on TPP's demise as a watershed to regret.