



Trump Revamps U.S. Trade Focus in Exiting From Pacific Deal

January 23, 2017

With the stroke of a pen, President Donald Trump abruptly ended the decades-old U.S. tilt toward free trade by acting to withdraw from an Asia-Pacific accord that had been promoted by companies including Nike Inc. and Wal-Mart Stores Inc. as well as family farmers and ranchers.

“Great thing for the American worker, what we just did,” Trump said on Monday after signing a memorandum directing the U.S. Trade Representative to withdraw the U.S. as a signatory to the Trans-Pacific Partnership accord with 11 other nations. He left the North American Free Trade Agreement with Mexico and Canada untouched for now, but an aide, who spoke on condition of anonymity, said action on that accord is still in the works.

“We’ve been talking about this a long time,” Trump said.

While Trump’s action doesn’t come as a surprise -- he campaigned against the TPP and other trade deals during his run for the White House -- the action rattled some Republicans and company executives who’ve built their businesses around decades of U.S. policy geared toward more open trade. It’s unclear whether Trump will replace TPP with other, narrower trade deals. There also is concern about what more protectionist policies will mean for the modern economy, where goods can travel across more than a dozen borders before making their way to the consumer.

“Never has the president been the one to initiate protectionism or been so vocal about turning inward,” Dan Ikenson, the director of the Cato Institute’s Herbert A. Stiefel Center for Trade Policy Studies, said by telephone. “U.S. trade policy on a bipartisan basis since 1934 has been geared toward liberalization and accommodation and internationalism.”

An unlikely group of bedfellows supported and opposed the announcement. Among the supporters were labor groups, Democrats such as Ohio Senator Sherrod Brown and U.S. tobacco companies, which opposed the deal over a provision that would have prevented them from suing to challenge anti-smoking measures.

Expressing disappointment with the move were farm interests and some members of Trump’s own party, including Senator John McCain, who warned it would mean abandoning the U.S. strategic position in Asia, where China is ready to step into to any vacuum left by the American withdrawal.

“Abandoning TPP is the wrong decision,” McCain, an Arizona Republican, said in a statement. “Moving forward, it is imperative that America advances a positive trade agenda in the Asia-Pacific that will keep American workers and companies competitive in one of the most economically vibrant and fastest-growing regions in the world.”

Difficult to Compete

The Business Roundtable, which supported the agreement, urged the new administration to continue to pursue trade agreements in Asia to give the U.S. a competitive advantage.

“The fact that our major foreign competitors -- China and the European Union -- are moving forward with their own trade agreements in the Asia-Pacific will make it even more difficult for the United States to compete,” Tom Linebarger, CEO of Cummins Inc. and chair of the Business Roundtable International Engagement Committee, said in a statement.

White House spokesman Sean Spicer said the administration intends to pursue bilateral trade agreements with individual countries, which could give the U.S. more bargaining power than being part of large group negotiations. Trade deals can take years to hammer out, so it could be some time before any of those are in place.

Beef Sales

The National Cattlemen’s Beef Association, a trade group representing 230,000 cattle ranchers and feeders, said not having a trade deal like TPP costs the industry \$400,000 in sales a day and that NAFTA has increased U.S. beef exports to Mexico more than sevenfold. Without those deals in place, the price of U.S. beef would cost more overseas, putting them at a disadvantage.

“TPP and NAFTA have long been convenient political punching bags, but the reality is that foreign trade has been one of the greatest success stories in the long history of the U.S. beef industry,” the group said in a statement.

U.S. agriculture exports have doubled since NAFTA was signed in 1993 by President Bill Clinton.

Trump’s decision to pull out of TPP eliminates potential savings on import tariffs for retailers like Foot Locker Inc. and Wal-Mart, and brands such as Nike, Adidas AG and Puma SE, according to data from Bloomberg Intelligence. Import costs would have been cut by about \$450 million a year, according to the Footwear Distributors and Retailers of America.

Company Support

The death of TPP is an especially bitter pill for Mark Parker, Nike’s chief executive officer. He has said TPP would help it add jobs in the U.S. because Nike would be able to use the savings from the deal to invest in the U.S. As the world’s largest sports brand, Nike sources about 40 percent of its shoes from Vietnam, a TPP member nation, and was very public supporter of the trade pact. Representatives from Nike didn’t respond to requests for comment.

Aldo Group, a Canadian footwear maker with a third of sales in the U.S., has been shifting production from China into Vietnam in anticipation of TPP being implemented in the hope of being able to take advantage of lower tariffs, said Bryan Eshelman, chief operating officer.

“TPP would have been fantastic” as the footwear industry pays on average as much as 18 percent of duty for imports to enter the U.S., Eshelman said in an interview before the executive order was signed. “In the short term, we are slightly disappointed that we can’t expect the duty relief that we were hoping for out of Vietnam.”

Taxes, Regulation

If the U.S. economy were to grow more rapidly because of some of Trump’s other policies such as reduced regulation and lower tax rates, Eshelman said, that would be beneficial for the company.

“If that happens, forget tariffs reduction. Our business will grow because the economy will grow and that would be a better outcome for us than lower duty imports into the U.S.,” Eshelman said.

The TPP, a 12-country deal that sought to liberalize trade between the U.S. and Pacific Rim nations including Japan, Mexico and Singapore, was a signature piece of former President Barack Obama’s attempt to pivot U.S. global strategy to focus on the fast-growing economies of Asia. The group that was part of the accord represents about 40 percent of the world economy. However, given rising opposition among Democrats and some Republican, it was never submitted for ratification.

The future of the TPP is now in flux. Japanese Prime Minister Shinzo Abe said in November that a TPP without the U.S. would be “meaningless.” Still, multiple signatory countries including Vietnam and Australia have said they would stick to the deal even without the leading party of the agreement.

‘Good Result’

On NAFTA, Trump said Sunday that he’ll meet with Canadian Prime Minister Justin Trudeau and Mexican President Enrique Pena Nieto to begin discussing the deal, which he has routinely blamed for the loss of U.S. jobs although there was little change to employment in the U.S. in several years after it went into effect. Trump signaled that he’s willing to work with the U.S.’s closest neighbors.

“We’re going to start renegotiating on NAFTA, on immigration, and on security at the border,” Trump said at the start of a swearing-in ceremony for top White House staff. “I think we’re going to have a very good result for Mexico, for the United States, for everybody involved. It’s really very important.”

Officials in Canada, which is the biggest buyer of U.S. exports, have indicated they want to avoid getting entangled with the Trump administration’s targeting of imports from Mexico and China. The three countries are the biggest trading partners of the U.S.

David MacNaughton, Canada’s ambassador to the U.S., told reporters his focus is on avoiding Canada being “collateral damage” in trade talks.