

Trump can kill trade deals but he can't kill globalisation

Written by Remy Davison, Jean Monnet Chair in Politics and Economics, Monash University

2016 will go down as a watershed year for all the wrong reasons: Britain's EU exit faces strong opposition; Syria remains plunged in civil war; and in the wake of the US election politics in the two major Anglosphere democracies are now deeply polarised.

In Britain and the US, the majority of voters have embraced candidates and movements that eschew globalisation, immigration and free markets. Instead, they preach nationalism, closed borders and protectionism.

But it is hyperbolic to suggest that the post-2008 financial crisis era is beginning to look very much like the 1930s in the wake of the Wall Street crash. This is not a clash between fascism, communism and democracy. But what the Brexit and US presidential votes do show is that modern democracies have proven incapable of dealing adequately with income inequality, unemployment and declining opportunity.

With Trump as president, US policy is likely to become more unpredictable, but the business of government and policy implementation must go on nevertheless.

Despite Republican majorities in Congress, Trump will not be able to treat the legislature as a mere rubber stamp. In the US system, Congress holds the whip hand. Moreover, Trump is at war with so many senior Republicans, he is unlikely to enjoy a smooth ride. Where congressional Republicans and Trump do agree is that tax cuts are needed.

Uncharted waters

In this respect, we are really navigating unknown waters as to how Trump will behave in office as president. Trump has no public sector background. He will be the first US president to enter the office without any gubernatorial or congressional experience, or any previous role in an administration.

Ronald Reagan, Bill Clinton and George W. Bush served as state governors; John F. Kennedy and Barack Obama were junior senators (Obama also served as a state senator from 1996); George H.W. Bush served in multiple roles, including the vice presidency. In the post-war

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period, only Eisenhower comes close to Trump as a political cleanskin. But Eisenhower had a substantial military career, a reputation as a war hero, and had been a key adviser to both the military and the Department of Defense before and after World War II.

Trump's victory has been built on his image as a Washington outsider. But his isolationist, nationalist and protectionist policies are not new; the first US Secretary of the Treasury, Alexander Hamilton, was an unabashed protectionist, viewing American infant industries as central to the US's commercial rivalry with industrial Britain.

On defence and trade policy, Trump is close to many of the positions articulated by the America First movement in the 1930s and 1940s. Substantial figures, such as Charles Lindbergh and future president Gerald Ford, sought to keep America out of the second world war. But once Washington entered the war, it did not make the same mistake it made after Versailles in 1919; instead, the US became a global economic and military superpower, eschewing the isolationism of 1920–41.

As a self-declared neo-isolationist, one of the keys to Trump's victory was his denunciation of the free-trade orthodoxy that has dominated Washington's economic agenda since the Bretton Woods conference of 1944, which created the IMF, World Bank and, later, the GATT, the predecessor to the World Trade Organisation.

Let's take a look at the state of play of the US's current and mooted free trade negotiations. We'll also briefly canvass how President Trump is likely to deal with Janet Yellen and the Federal Reserve.

The Trans-Pacific Partnership (TPP)

The TPP was initiated under George W. Bush's administration, but President Obama pushed the 12-member bloc, obtaining fast-track trade promotion authority from Congress in June 2015. This allowed him to press forward with the finalisation of the agreement, which was released in October 2015. However, Trump's opposition to TPP, along with Hillary Clinton's second thoughts about her support for it means the deal is unlikely to be pushed through during Obama's final weeks in office.

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In November 2015, Trump declared TPP “insanity”. Trump’s anti-TPP campaign demonstrated how he and the Tea Partyists had so convincingly vanquished the traditionally pro free trade Republican Party. By July this year, [Republicans began to erase all trace of TPP support](#) from their websites. By September, staunch TPP supporters [Marco Rubio and Pat Toomey performed a volte-face](#); having praised the TPP, now they sought to bury it. Both Obama and Hillary Clinton were depending on the pro-TPP Republicans to get the pact through Congress.

Verdict: Dead in the water. Many Australians will applaud Trump for killing the TPP, as it was [far from popular](#)

The North American Free Trade Agreement (NAFTA)

NAFTA was a product of the Reagan-Bush years, building on its 1988 predecessor, the Canada-US Free Trade Agreement (CUSTA). George H.W. Bush’s administration did most of the heavy lifting, but Bill Clinton pushed NAFTA through Congress in 1993, expending considerable political capital as he faced off against the unions, the Democrats’ biggest supporters.

Trump has labelled NAFTA “the worst trade deal ever”. True, NAFTA may have destroyed 879,000 US jobs, [according to one study](#). But it also provided a low cost labour base for both the US and Canada, as they strove to compete with Asian manufacturing and the EU’s newly opened eastern periphery.

Verdict: No happily ever NAFTA. Likely to stay, but regulatory changes will be made.

The Transatlantic Trade and Investment Partnership (TTIP)

[TTIP](#) may be dead already, mostly due to the fact that it’s as unpopular as Hillary Clinton. It is in Europe that TTIP has found its strongest opponents, with [thousands protesting](#) against it.

Clinton, Sanders and Trump’s position against TTIP coalesced early, as it was clear it was a vote loser within all three candidates’ voter bases. In a pitch to Sanders supporters, Clinton

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declared [she would quash any deal that hurt American jobs](#) .

Clinton's opposition to free trade deals demonstrated how decisive both the Sanders and Trump campaigns had been in shaping the narrative of the anti-free trade debate. Equally, the union base of the Democratic Party had always opposed FTAs. Had Clinton won the election, it is likely she would have attempted to revive TTIP during her tenure, as both the EU and US had pushed for a transatlantic FTA in some form since 1990.

Verdict: This is an [ex-parrot](#).

A UK-US free trade deal?

President Obama infamously intervened in the UK Brexit debate earlier this year, declaring Britain would go "to the back of the queue" if it left the EU and sought a FTA with the US. Theresa May, Boris Johnson and Liam Fox will be hoping that President-elect Trump will welcome a special free trade relationship.

During the campaign, Trump advisers indicated that he would be willing to discuss a FTA with the UK. Indeed, Trump [stated](#) that Britain would "always be at the front of the line" when it came to trade deals. This would be critical to Brexit Britain; the US is the UK's largest third-country market, with more than £30 billion in exports.

But the UK also enjoys a trade surplus in goods and services with the US, and Trump's administration is unlikely to grant substantial concessions to an ally that already makes substantial hay from its existing tariff arrangements.

In other words, why would President Trump do a deal that gives UK firms more access to the US market?

Verdict: Boris needs to grab that American passport of his, head for Washington and start speed-dating. Soon.

Audit the Fed!

What future for Janet Yellen, Federal Reserve Chair? The Donald has expressed his dislike of the Federal Reserve chair on more than one occasion.

In September 2016, Trump took aim at Yellen's [near zero interest-rate policy](#), arguing it existed [only to make Obama look good](#). Janet Yellen wasn't about to take this lying down. In a press conference, [she responded – implicitly](#) – to Trump, arguing that:

“I can say emphatically that partisan politics plays no role in our decisions...We do not discuss politics at our meetings.”

It's unknown whether Trump would seriously attempt to remove Yellen. But in May this year, [he did state](#) that he would “most likely” replace her as she was “not a Republican”. In September, Trump's position hardened; he said [he would audit the Fed and replace Yellen](#) in the first 100 days of his administration.

There are precedents; in 1981, US Treasury Secretary Donald Regan [began to brow-beat Fed Chair Paul Volcker](#) for maintaining his tight monetary policies as the Reagan administration sought to introduce wide ranging tax cuts. Despite Reagan's early support for Volcker (a Carter appointee), by 1987, the President had had enough; he ended Volcker's tenure, bringing in Alan Greenspan.

Verdict: Anyone looking for a central bank chief? Used for one term only. Low, low interest rates.

Another brick in the wall

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Trump's triumph is partly built upon faulty and drastically over-simplified conceptualisations of the operation of the US and the global economy. Corporations, banks, finance and even consumers are no longer "national" entities. They have not been for many years. Manufacturing and services are not local but global. This complex web of interdependence has manifested itself over many decades.

Globalisation has even brought jobs back to America; but in the post-GFC environment, this has produced US jobs that, [on average, pay 23% lower](#) than they did prior to 2008.

Mexican walls, Chinese trade negotiations and bans on Muslims: if Trump were to implement some of these initiatives it may have some impact upon people movements. But low-tech manufacturing jobs en masse are not coming back to America. The US used to build vast numbers of radios and TVs; these have not been made in America for a long, long time. Similarly, Apple is not about to repatriate iPhone production and establish manufacturing onshore. And US corporations are not about to stop doing business with the rest of the world.

This is the brutal reality that Trump cannot smash, but his supporters appear to believe he can. He is wrong and they are wrong. And they will be bitterly disappointed.

Remy Davison's Chair is funded by the EU Commission.

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