Trump Scraps The Trans-Pacific Partnership (TPP) for Bilateral "Free Trade"

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Less than a week after assuming office, President Donald Trump signed an executive order abandoning the 12 nation Trans-Pacific Partnership free trade agreement negotiated by former President Barack Obama, but not yet ratified by the U.S. Congress. He then quickly attacked Mexico — abruptly cut short a phone conversation with Mexico's President Peña Nieto, canceled a meeting with Peña Nieto after demanding Mexico pay for a wall on the U.S. border and threatened to impose a 20 percent border tax on goods exported to the United States based on the North American Free Trade Agreement.

Trump's trade representative, Peter Navarro, then dropped another trade policy bomb by publicly declaring Germany was manipulating the euro currency unfairly to its advantage, stealing U.S. exports, while similarly exploiting the rest of the Eurozone economy as well.

Trump, meanwhile, continued to declare that China and Japan were also currency manipulators who were taking advantage of U.S. businesses and increasing their exports at the expense of the U.S. Their currencies declined by 8 percent and 15 percent, respectively, in recent months. The Mexican peso fell by 16 percent after the U.S. election and the euro and British pound each by around 20 percent in 2016.

Trump's flurry of executive orders canceling trade deals, his phone calls to country leaders, his appointed representatives public statements, and his constant tweets on social media suggest to some, including the U.S. mainstream media, that Trump is anti-free trade, that Trump is ushering in a new trade protectionism, and that his attacks on free trade agreements, like TPP and NAFTA, will precipitate a global trade war. It is this writer's view, however, that none of this is likely.

Trump is a dedicated free trader. He just rejects multilateral, multi-country free trade deals like TPP and NAFTA. He wants even stronger, pro-U.S. business free trade deals and intends to renegotiate the existing multilateral treaties — to the benefit of U.S. multinational corporations and at the expense of the U.S. trading partners. Trump's threats of protectionist measures, like the 20 percent border tax and previous election promises of imposing a 45 percent import tax on goods from China, are primarily tactical and aimed at conditioning U.S. trading partners to make major concessions once U.S. renegotiation of past deals and agreements begin.

And as for a trade war, the answer is also a very likely "no." The big 'four' targeted trading partners — China, Japan, Germany, and Mexico — currently exchange goods and services with the huge U.S. economy amounting between US$1 to US$2 trillion a year. China-U.S. two-way trade amounts to nearly US$500 billion a year, Mexico about as large, and Japan and Germany also account for hundreds of billions of dollars of trade with the U.S. per year. These are the countries with which the U.S. has the largest trade deficits: China's about US$360 billion and the largest, Japan's close to US$80 billion, Mexico and Germany around US$60-$70 billion. Given the large volume of lucrative trade with the U.S., these countries will eventually agree to renegotiate existing free trade treaties and trade arrangements with the U.S.

What Trump trade policies represent is a major shift by U.S. economic elites and Trump toward bilateral free trade, country to country. Trump believes he and the U.S. have stronger negotiating leverage "one on one" with these countries and that prior U.S. policies of multilateral free trade only weakened U.S. positions and gains. But free trade is free trade, whether multi or bilateral. Workers, consumers and the environment pay for the profits of corporations on both sides of the trade deals, regardless how the profits are re-distributed between the companies benefiting from free trade.

Trump's shift to bilateral trade represents the intent of U.S. economic elites to increase their share of trade profits and benefits at the expense of their capitalist trading cousins. And this is not the first time the U.S. has set out to "shake up" trade relations to its advantage. In 1985 and 1986, when the U.S. under Reagan was losing out exports to Europe and Japan, the U.S. forced Japan to the bargaining table and negotiated the "Plaza Accords," in which Japan was forced to make major concessions to the U.S. This was immediately followed up by the "Louvre Agreements" with Europe, with the same results.

The Reagan team, led by James Baker of the U.S. Treasury, decided to abandon multilateral trade negotiations through the then global General Agreements on Tariffs and Trade, or GATT. GATT was an attempt to negotiate trade on a global scale involving scores of countries. The U.S. could not get the deal it wanted from GATT trade negotiations, so it turned its fire on its biggest capitalist trading partners — Europe and Japan — and forced the Plaza and Louvre Agreements on them. The results were great for U.S. business, especially multinational corporations. But the agreements play a large part in leading to banking crashes in the early 1990s in Europe and in Japan. Japan thereafter went into chronic recession for the rest of the decade and Germany in the 1990s ended up being described as the "poor man" of Europe.

Similarly today, Trump's nixing of the TPP and his attacks on Mexico, NAFTA, Germany, and Japan reflect a strategic shift from multilateral free trade strategies and a U.S. policy turn to bilateral approaches to free trade where the U.S. can extract even more concessions from competitors in the critical decade ahead.

One reason for this strategic shift is that global trade volumes have been slowing rapidly in recent years. The global trade pie is shrinking, especially since 2010, when global trade grew at a 20 percent rate; but this past year the growth will be less than 2 percent. Capitalist elites are thus increasingly fighting over a smaller share of trade. For the first time, in the past year, the growth of global trade is slower than the growth of global Gross Domestic Product, even as GDP itself is slowing globally.

Another explanation for the Trump shift is that the U.S. dollar and interest rates are expected to continue to rise. That will result in an increase in inflation in the US. The rising dollar and U.S. prices will mean U.S. multinational corporations' profits from trade will take a hit. They already are. The Trump shift to bilateral trade is therefore in anticipation of having competitors make up the expected losses of U.S. businesses from trade due to the rising U.S. dollar and U.S. price inflation.

The consequences of the Trump trade shift for the "big four" trade deficit trading partners are mostly negative. Eighty percent of all Mexico exports now go to the U.S. and 30 percent of Mexico's GDP is from U.S. trade. Mexico's peso will continue to fall, import inflation rise and undermine standards of living. Mexico's central bank will raise interest rates to try to slow capital flight and that will cause more unemployment in addition to import inflation and a slowing economy.

For Europe, the U.S. turn from multilateral free trade will add impetus to Britain's "Brexit" from the European Union, as well as further legitimize other countries in the EU exiting the Eurozone. France could be next, should the pro-Trump French National Front party there win the upcoming elections this spring, which the polls show it is leading.

Japan appears to want to be the first major U.S. trading partner to cut a bilateral deal with Trump. Japanese prime minister, Shinzo Abe, continues to shuttle back and forth to Washington to meet with Trump. The first to strike a Trump bilateral deal may get the best terms. Britain's Theresa May is not far behind, however, equally desperate to cut a bilateral deal to enable the U.K. to "Brexit" sooner than later.

Where the U.S. clearly loses from the trade policy shift is with China. The end of the TPP means that China will likely expand its own free trade zone, the Regional Comprehensive Economic Partnership, negotiated now with South Korea, Australia, India and also Japan. The TPP was the U.S. economic cornerstone for its so-called pivot to Asia (China) politically and militarily. That has now been set back. The expansion of China's regional trade zone will also further solidify its currency, the yuan, as a global trading currency, as well as strengthen its recent Industrial Bank and "One Belt-One Road" initiatives.

The biggest negative impact of the Trump shift on free trade will be the global economy itself. The shift will take time, produce a lot of uncertainty, as well as reactions and counter-measures. That will only serve to slow global trade volumes even further. All emerging market economies will consequently pay a price in lower exports sales for Trump's strategic trade shift, the ultimate aim of which is to restore U.S. economic hegemony in trade relations over trading partners — a hegemony that has been weakening in recent years. But this is not 1985. And a safe bet is that restoration will not prevail.