

# Economic Strategy

## Trump Trade

- Trump likes bilateral trade agreements, not multilateral trade agreements. Australia is good at both.

In the long history of US presidents, there are only four that have economics degrees. It is generally a surprise to most people that Donald J Trump is one of those people. The other three were also Republican presidents. These were Ronald Reagan, Gerald Ford and George HW Bush.

Trump has the degree from one of the highest rated schools of the four Presidents. He graduated from the Wharton School of the University of Pennsylvania. Ronald Reagan graduated from Eureka College in Illinois, Gerald Ford graduated from the University of Michigan and George HW Bush graduated from Yale.

Last year, I had dinner with a long term secretary/treasurer of the American Economics Association and asked him if he knew how Trump went in his degree. He replied that Trump's problem was that at the age of 21 when he was studying economics, he was also building a hotel at the time. He noted that whereas Trump's teachers had an only average opinion of his academic performance, my esteemed colleague had a very high opinion of the hotel.

In a recent meeting with US union leaders on 22 January, Trump noted that he had just signed an order putting an end to US involvement in the Trans Pacific Partnership (TPP). The union leaders responded to his announcement with a hearty cheer. What Trump went on to say was perhaps more interesting.

Trump then began a quite specific commentary of the problems of enforcing multilateral trade agreements such as the TPP. He noted that once the US had entered into these agreements, it was very difficult to enforce the terms of these agreements. Trump then argued that it was much better for the US to enter into a series of bilateral trade agreements. These were done directly with the other country involved and could be negotiated with enforceable provisions. Speaking in terms that the union leaders might understand, he said "if the other side does not keep to the terms of the bargain, then in 90 days they are fired".

In an earlier time, I was an Australian Trade Commissioner. I spent time in both commodity policy and in international trade policy, as well as in other areas. I remember being told by my First Assistant Secretary that trade policy went in cycles. These cycles were from multinational trade agreements, to bilateral trade agreements. The cycle, he said, went from bilateral to multilateral and then back to bilateral. It appears that we are moving back into a period of bilateral trade policy.

It turns out Australia is really good at both. At the same time, as we are participating in the negotiation on the TPP, a multilateral trade agreement, we also completed a free trade agreement with China, a bilateral trade agreement. Prior to this, we had also negotiated a free trade agreement with the US, another bilateral trade agreement. India has asked to rapidly negotiate a free trade agreement with Australia. When this is completed, this will be another bilateral trade agreement.

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### Opportunities under NAFTA

Trump is famously dissatisfied with the multilateral trade agreement that the US has with Canada and Mexico called the North American Free Trade Agreement or NAFTA. He says that he wants to re-negotiate it. In fact, a little known provision of NAFTA already allows him to apply significant force.

The original NAFTA agreement included a provision for annual review. This allows the US to modify the operation of the agreement if it feels that that operation is not satisfactory. This provision for annual review has NEVER been exercised. I suspect that this provision will now be excised by Donald Trump.

In doing so, Trump will put pressure on both Canada and Mexico. Both of these countries are like Australia signatories to the TPP. I think that the pressure that Trump puts on Canada and Mexico under NAFTA will make both of these countries much keener to ratify their membership of the TPP so that they can take opportunities for trade with other members in the Western Pacific. This is also another reason Australia should ratify the TPP.

### **Improving the US Free Trade Agreement**

Trump has signaled that he wants to increase the size of the US navy by 109 ships. He also wants to increase the number of marine divisions to 20. This is the highest number of marine divisions since the Vietnam War. The purpose of increasing this naval power is to exert that power in the western Pacific. The major US rival in the Western Pacific is China.

If Trump wishes to do this, then Australia, because of its location, will become an increasingly important strategic ally. Trump has signaled that he wants to rapidly negotiate a free trade agreement with the UK because of its strategic location. It may even more important for Trump to negotiate an improved free trade agreement with Australia because of our strategic location.

Trump's decision to favour bilateral free trade agreements, rather than multilateral agreements could wind up favouring allies in important strategic locations. One of those allies in an important strategic location is Australia.

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