

The Washington Post

Business

Withdrawal from Trans-Pacific Partnership shifts U.S. role in world economy

By **Ylan Q. Mui** January 23

President Trump's cancellation Monday of an agreement for a sweeping trade deal with Asia began recasting America's role in the global economy, leaving an opening for other countries to flex their muscles.

Trump's executive order formally ending the United States' participation in the Trans-Pacific Partnership was a largely symbolic move intended to signal that his tough talk on trade during the campaign will carry over to his new administration. The action came as China and other emerging economies are seeking to increase their leverage in global affairs, seizing on America's turn inward.

Mexico's President Enrique Peña Nieto declared Monday that his country hopes to bolster trade with other nations and limit its reliance on the United States. Chinese state media derided Western democracy as having "reached its limits"; President Xi Jinping had touted Beijing's commitment to globalization during his first appearance at the annual gathering of the world's economic elite last week in Davos, Switzerland.

“This abrupt action so early in the Trump administration puts the world on notice that all of America’s traditional economic and political alliances are now open to reassessment and renegotiation,” said Eswar Prasad, a professor of trade policy at Cornell University. “This could have an adverse long-run impact on the ability of the U.S. to maintain its influence and leadership in world economic and political affairs.”

The TPP was one of President Barack Obama’s signature efforts, part of a broader strategy to increase American clout in Asia and provide a check on China’s economic and military ambitions. The deal with 11 other nations along the Pacific Rim covered a wide swath of goods, granting U.S. cattle ranchers better access to Japan and lowering tariffs on apparel imported from Vietnam. Congress granted Obama “fast-track” authority to negotiate the agreement in 2015, but political sentiment quickly shifted, and the deal fell apart without making it to Capitol Hill for approval.

Trump’s election effectively guaranteed its demise. Monday’s executive order made it official.

Pulling out of the deal “raises fundamental questions about American reliability,” said Richard Haass, president of the Council on Foreign Relations. “It leaves our allies and trading partners in the lurch. It does create strategic opportunities for China.”

Those include Beijing’s own regional trade agreement, which it is pursuing with 15 other Asian countries, including Japan. An analysis by White House economists under Obama found that a deal between just China and Japan could jeopardize \$5 billion in U.S. exports and millions of American jobs. Proponents of the TPP have also pointed to recent reports of Beijing’s weapons buildup on islands in the South China Sea as evidence of the country’s emboldened posture.

Sen. John McCain (R-Ariz.) echoed those concerns Monday, calling Trump’s withdrawal from the TPP a “serious mistake” that will give China greater

authority to dictate the terms of international trade.

In his speech in Davos, even Xi warned that America's protectionist turn could backfire and wind up damaging the world economy.

"No one will emerge as a winner in a trade war," Xi said.

But canceling the TPP was one of the clarion calls of Trump's campaign, part of a global backlash against the drive toward greater internationalization that has defined the world economy since the end of World War II. British Prime Minister Theresa May, who is in the midst of navigating her country's own break from established trading partners, is slated to visit with Trump this week. A White House spokesman said meetings with Peña Nieto and Canadian Prime Minister Justin Trudeau are in the works.

"What we want is fair trade," Trump said during a meeting with business executives Monday. "And we're going to treat countries fairly, but they have to treat us fairly."

Ending America's involvement in the TPP was also a top priority for Democrats. On Monday, five Democratic senators introduced legislation that would require the president to notify each of the 11 other countries involved in the deal of the United States' withdrawal. It would also block any "fast track" approval of the agreement in the future.

AFL-CIO President Richard Trumka hailed the president's executive order and called for additional action.

"They are just the first in a series of necessary policy changes required to build a fair and just global economy," he said in a statement.

John Veroneau, a partner at the law firm Covington who served as deputy U.S. trade representative under President George W. Bush, said the Trump administration could still pursue bilateral deals with individual countries,

particularly Japan and Vietnam, that mirror the deals negotiated under the TPP. But he pointed out that China is aggressively seeking to lock in trade agreements with many of the same countries that had signed on to the TPP.

“If the U.S. decides to pause, we should assume that some of our trading partners will move ahead,” Veroneau said.

In addition to backing out of the TPP, Trump has also vowed to renegotiate the North American Free Trade Agreement, the cornerstone of the U.S. economic relationship with Mexico and Canada for more than two decades. Trump’s nominee for commerce secretary, billionaire investor Wilbur Ross, has said he considers reopening the deal the first order of business for his agency. On Monday, White House spokesman Sean Spicer said the administration would tackle NAFTA “very shortly.”

In Mexico, Peña Nieto said in a speech Monday that he plans to begin trade talks with other countries that had signed on to the TPP. And he stressed that in the Trump era, one of Mexico’s top priorities will be to diversify its trading and political partners so it won’t have to rely so heavily on the United States.

Mexico is a nation “open to the world,” Peña Nieto said.

Meanwhile, Trudeau and other top Canadian officials met with Trump adviser Stephen Schwarzman, chief executive of the Blackstone Group, according to the Globe and Mail. Schwarzman called trade between the United States and Canada “in balance.”

“Things should go well for Canada in terms of any discussions with the United States,” he said, according to the Globe and Mail.

In meetings with business leaders and union workers Monday, Trump highlighted his proposal for a border tax as a centerpiece of his administration’s trade policy.

Dow Chemical chief executive Andrew Liveris, who attended the meeting, said the border tax was discussed extensively. He said the executives were asked to return in 30 days with a plan to shore up the manufacturing industry.

“I would take the president at his word here,” Liveris said. “He’s not going to do anything to harm competitiveness. He’s going to actually make us all more competitive.”

Still, it is unclear exactly how a border tax would be implemented. Testifying before the Senate Finance Committee last week, Trump’s nominee to lead the Treasury Department said any border tax would be targeted at specific businesses. However, the president does not have the power to levy taxes, and experts on international trade have warned that focusing on particular companies could violate treaties.

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House Speaker Paul D. Ryan (R-Wis.) has proposed allowing businesses that export goods to deduct many of their expenses, while those that import would not receive the same benefit. But in a recent interview with the Wall Street Journal, Trump dismissed the plan, known as “border adjustment,” as “too complicated.”

Some industry groups argue that Trump’s approach would better leverage America’s status as the world’s largest economy.

Scott Paul, president of the Alliance for American Manufacturing, said his group is hoping that opening up NAFTA could provide more leeway to combat currency manipulation in countries outside the agreement. His group, which represents both industry and unions, is also seeking more stringent rules of origin, which dictate how much production must occur

within member countries to qualify for free-trade status.

“The details are going to matter a lot,” Paul said. “Renegotiating NAFTA obviously entails some risks and some rewards.”

Joshua Partlow contributed to this report.

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