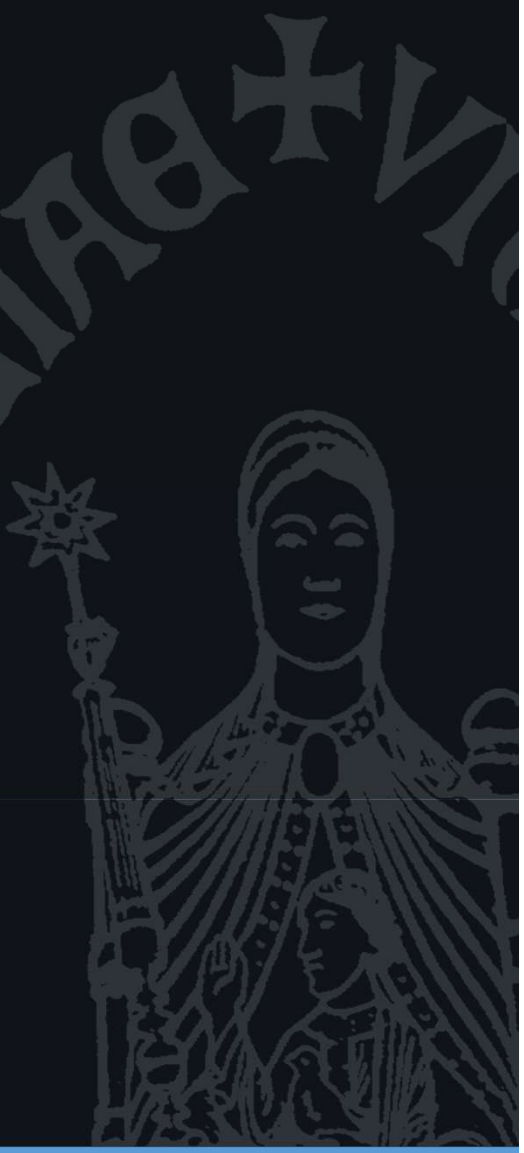
In Search of a Way In/Out

The Transatlantic Trade Relationship after the 2018 Mid-Term Elections

Bern, WTI, November 30, 2018



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In Search of a Way In/Out

Part 1	The Transatlantic Trade Relationship
Part 2	Congress and the Presidency on Trade
Part 3	The Elections of 2016 and 2018
Part 4	Conclusion

Part 1: The Transatlantic Trade Relationship

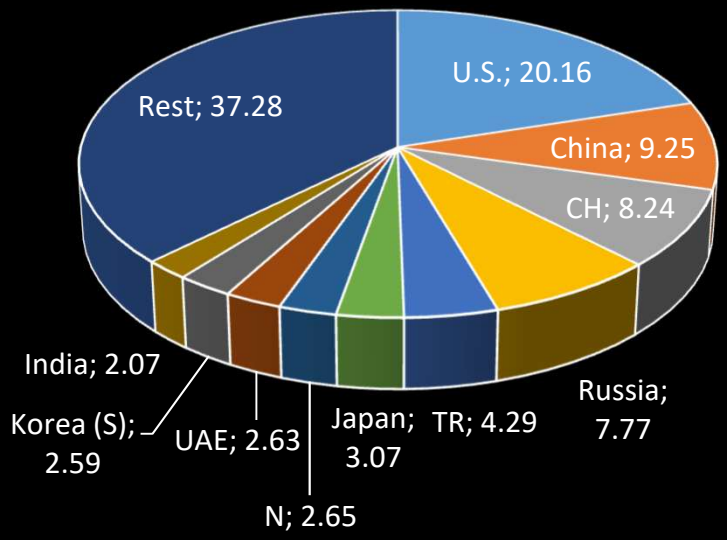
Seen from the U.S.'s Perspective

European Union - Main Trading Partners

In %, 2016, Merchandise Trade

Source: WITS Database

Exp to



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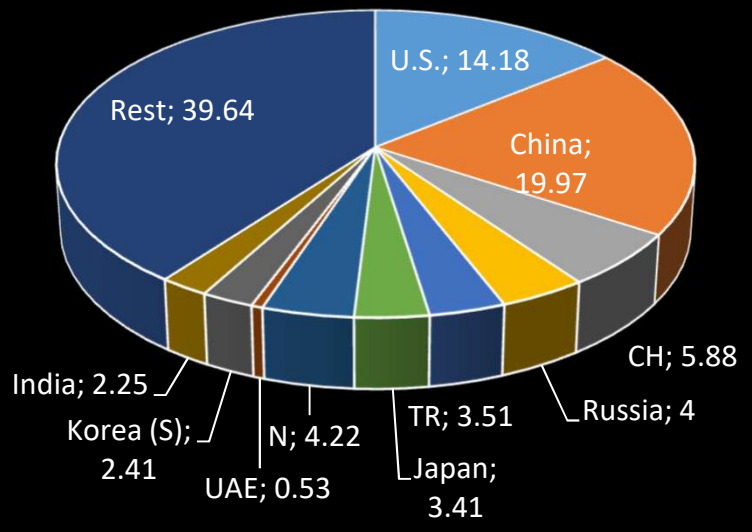
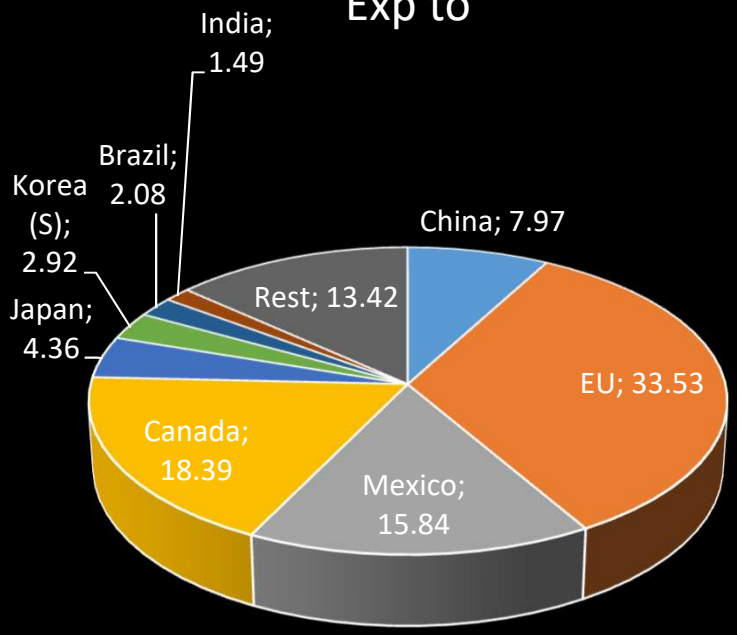


United States - Main Trading Partners

In %, 2016, Merchandise Trade

Source: WITS Database

Exp to



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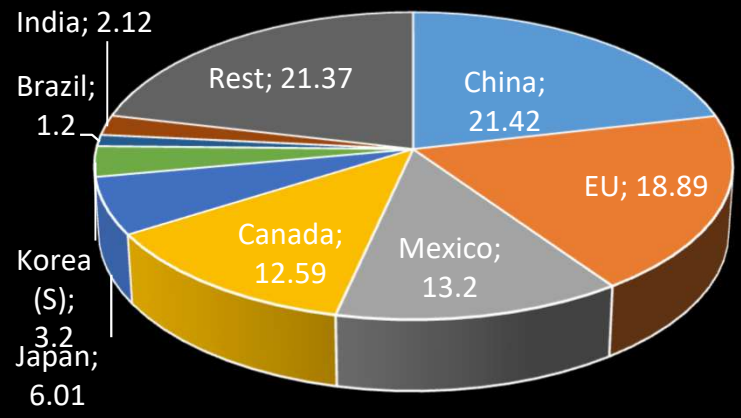
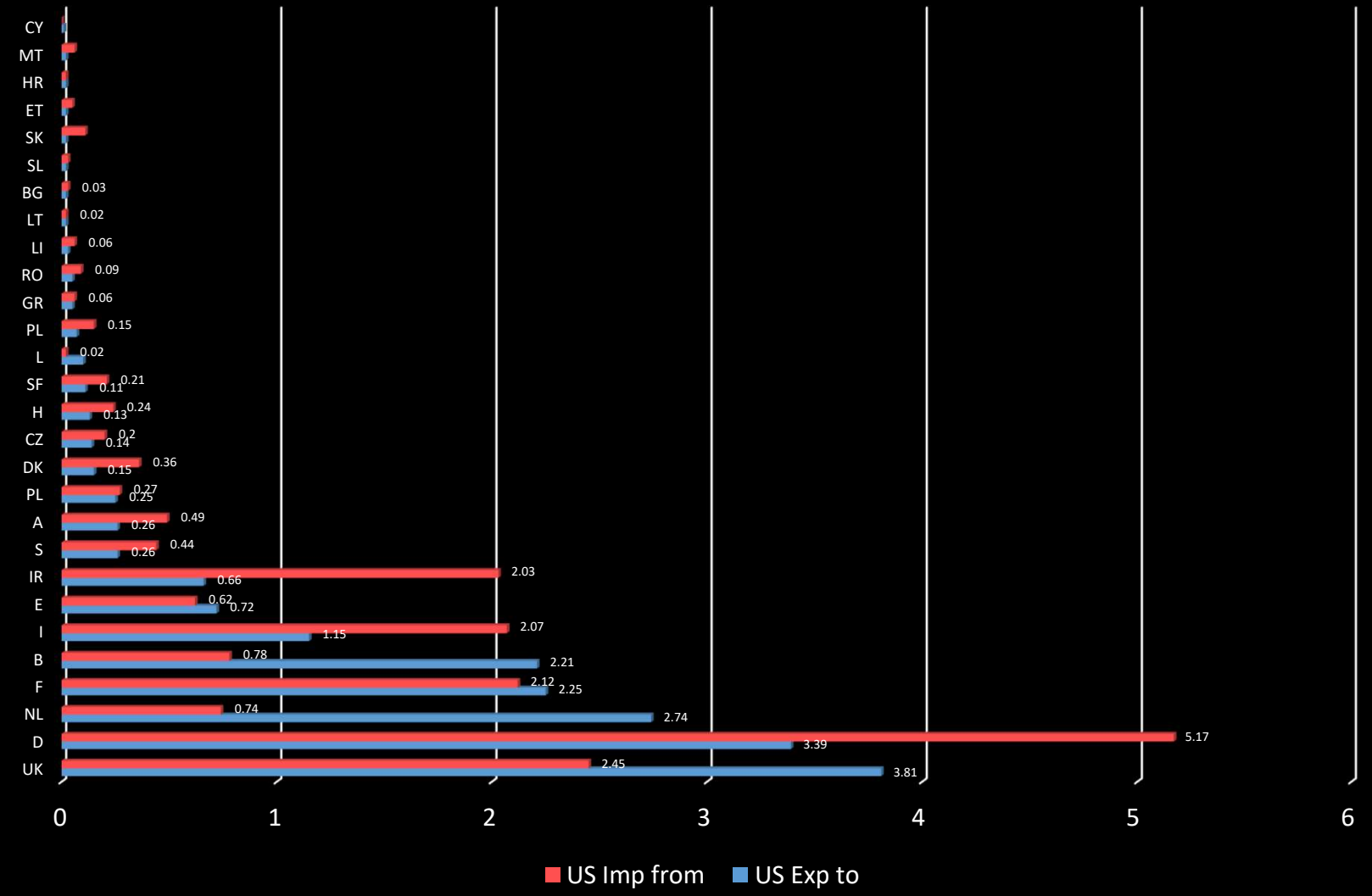


United States - Main Trading Partners in the EU

In % of overall U.S. trade, 2016, Merchandise Trade

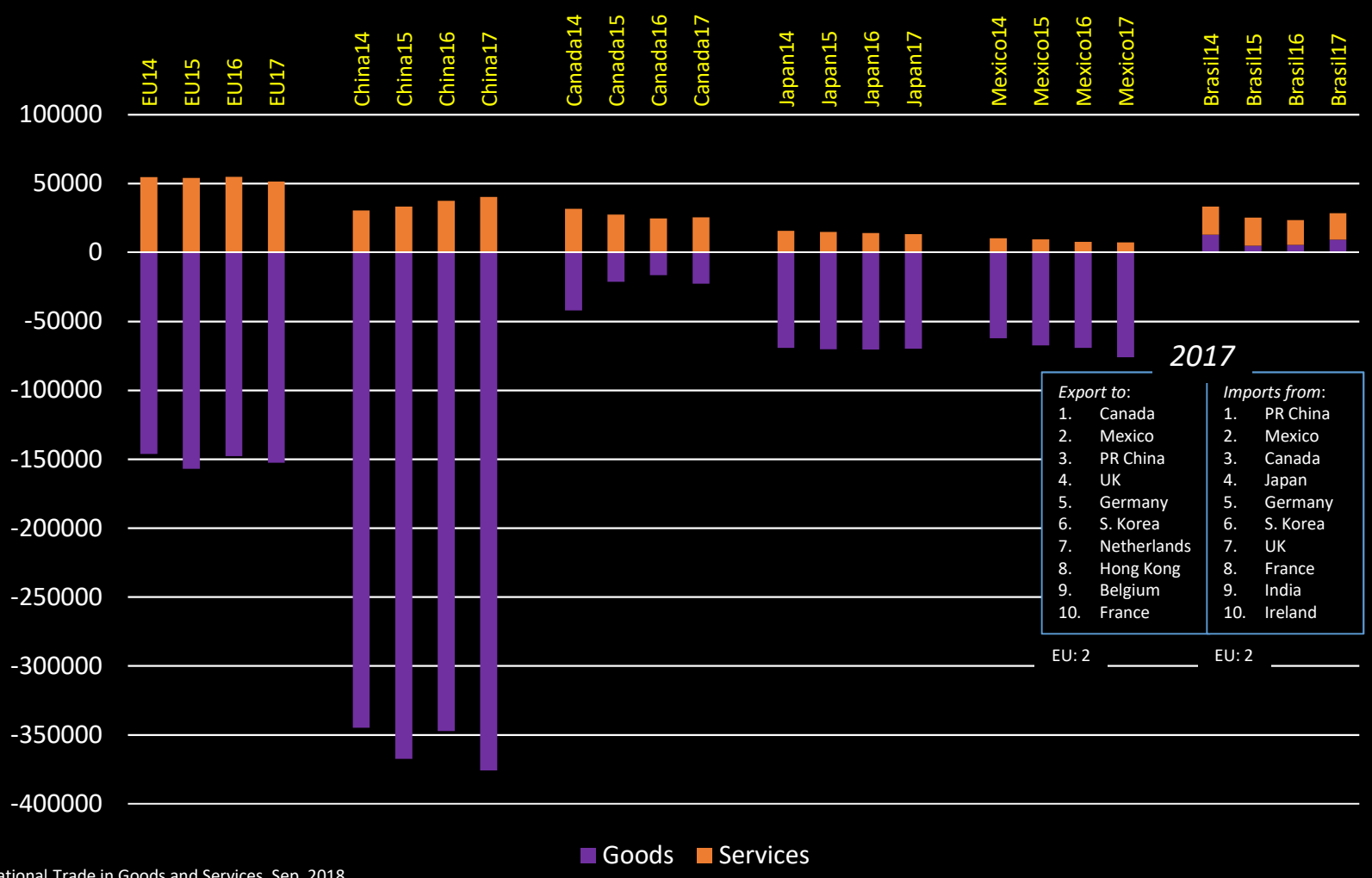
Source: WITS Database



Trade Deficits and Surpluses

'Buy American, Hire American, America First'

Donald Trump, at Grand Rapids, Mi, Dec. 9, 2016



2017

Export to:	*Imports from*:
1. Canada	1. PR China
2. Mexico	2. Mexico
3. PR China	3. Canada
4. UK	4. Japan
5. Germany	5. Germany
6. S. Korea	6. S. Korea
7. Netherlands	7. UK
8. Hong Kong	8. France
9. Belgium	9. India
10. France	10. Ireland
EU: 2	EU: 2

Source:
BEA, U.S. International Trade in Goods and Services, Sep. 2018
Seasonally Adjusted Data (by Geography), in $m

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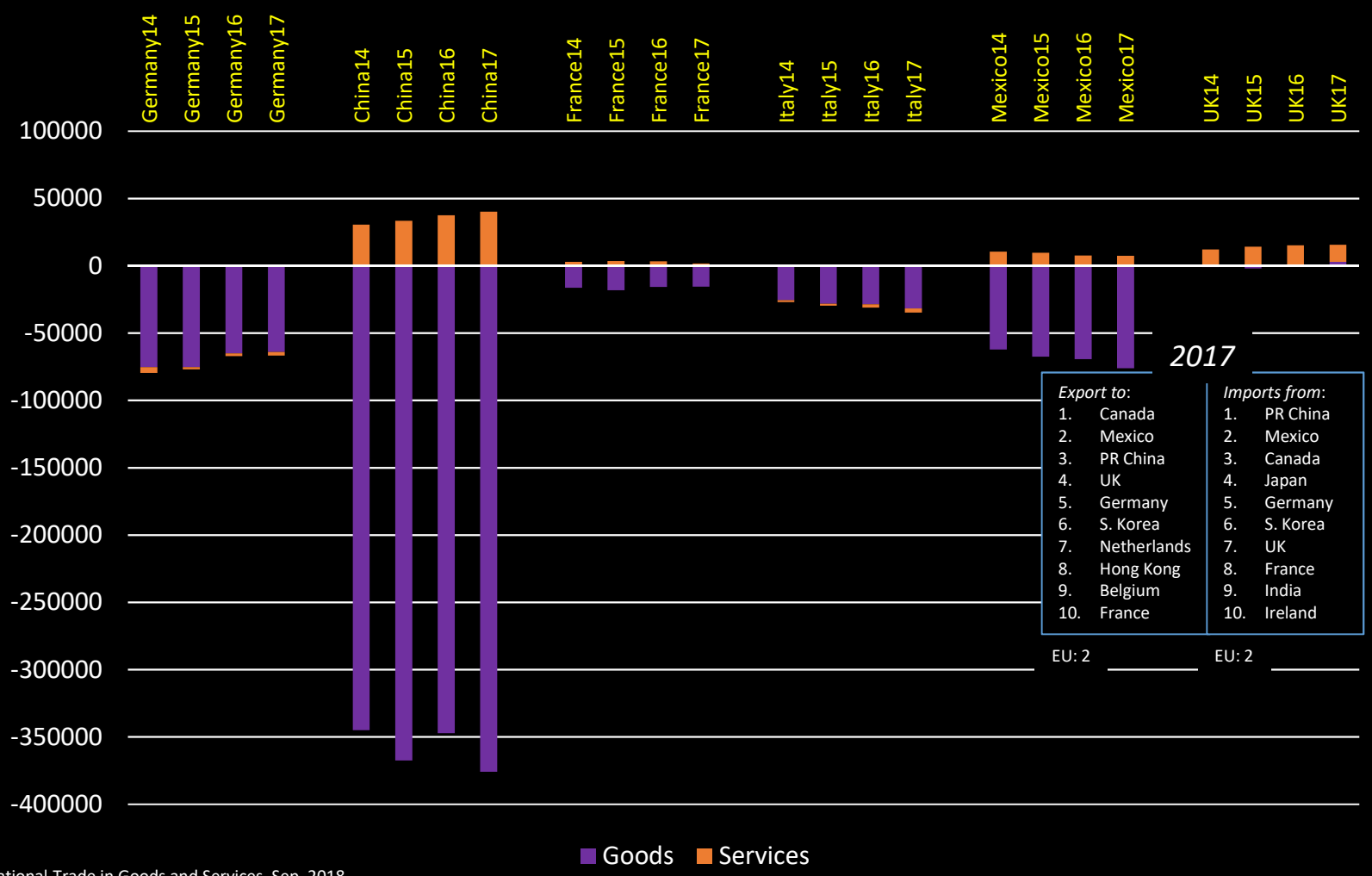

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Source:
BEA, U.S. International Trade in Goods and Services, Sep. 2018
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Trump's Transactional Approach

'Buy American, Hire American, America First'

Donald Trump, at Grand Rapids, Mi, Dec. 9, 2016

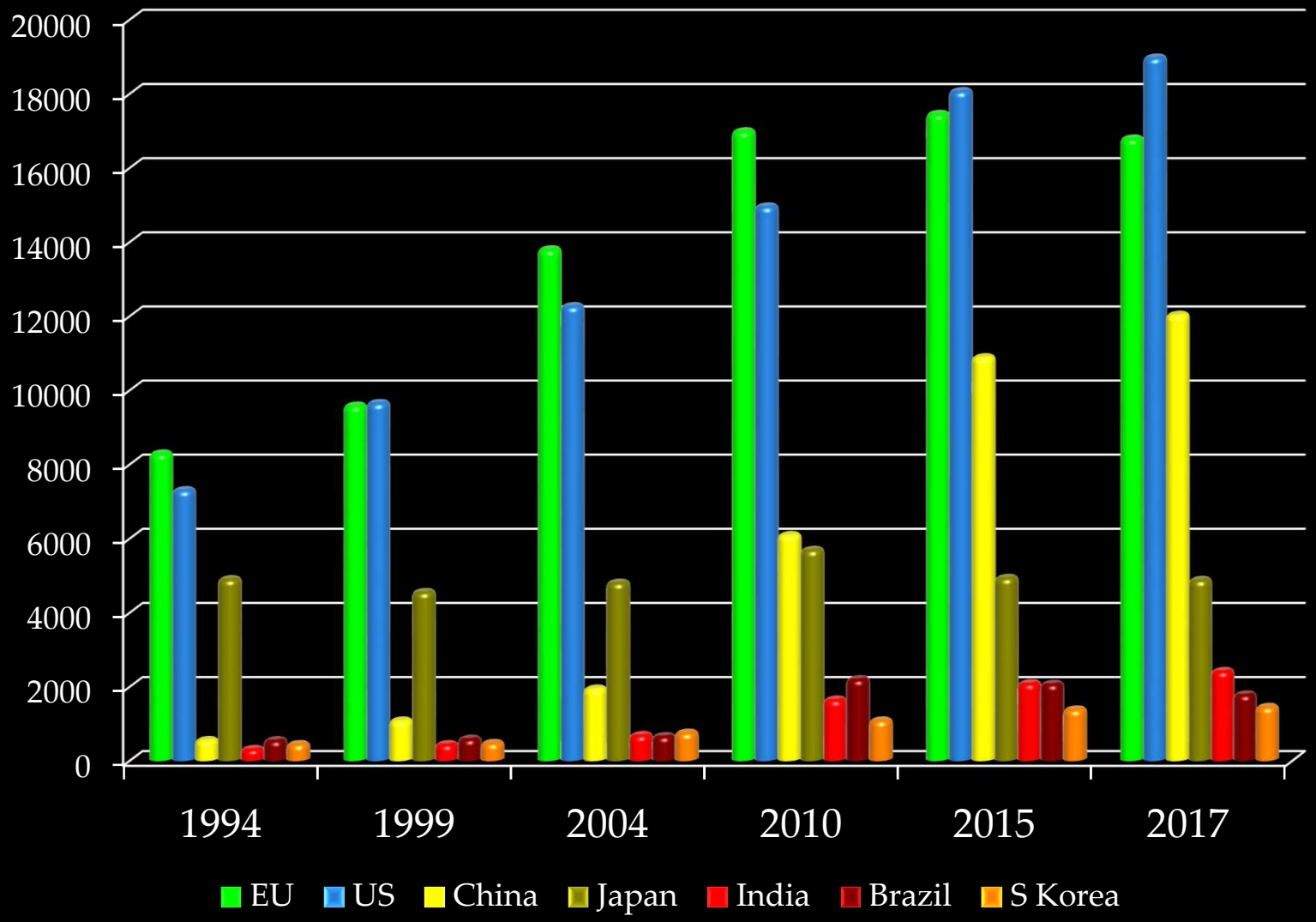
"My Administration has launched a new era in American trade policy, driven by a determination to use the leverage available to us as the world's largest economy to open foreign markets and fairer treatment for American workers. One of the major pillars supporting my trade policy is the pursuit of better trade deals."

Trump Trade Promotion Extension Request, March 20, 2018

Economic Size

GNI, in bn U.S. $ (current dollars)

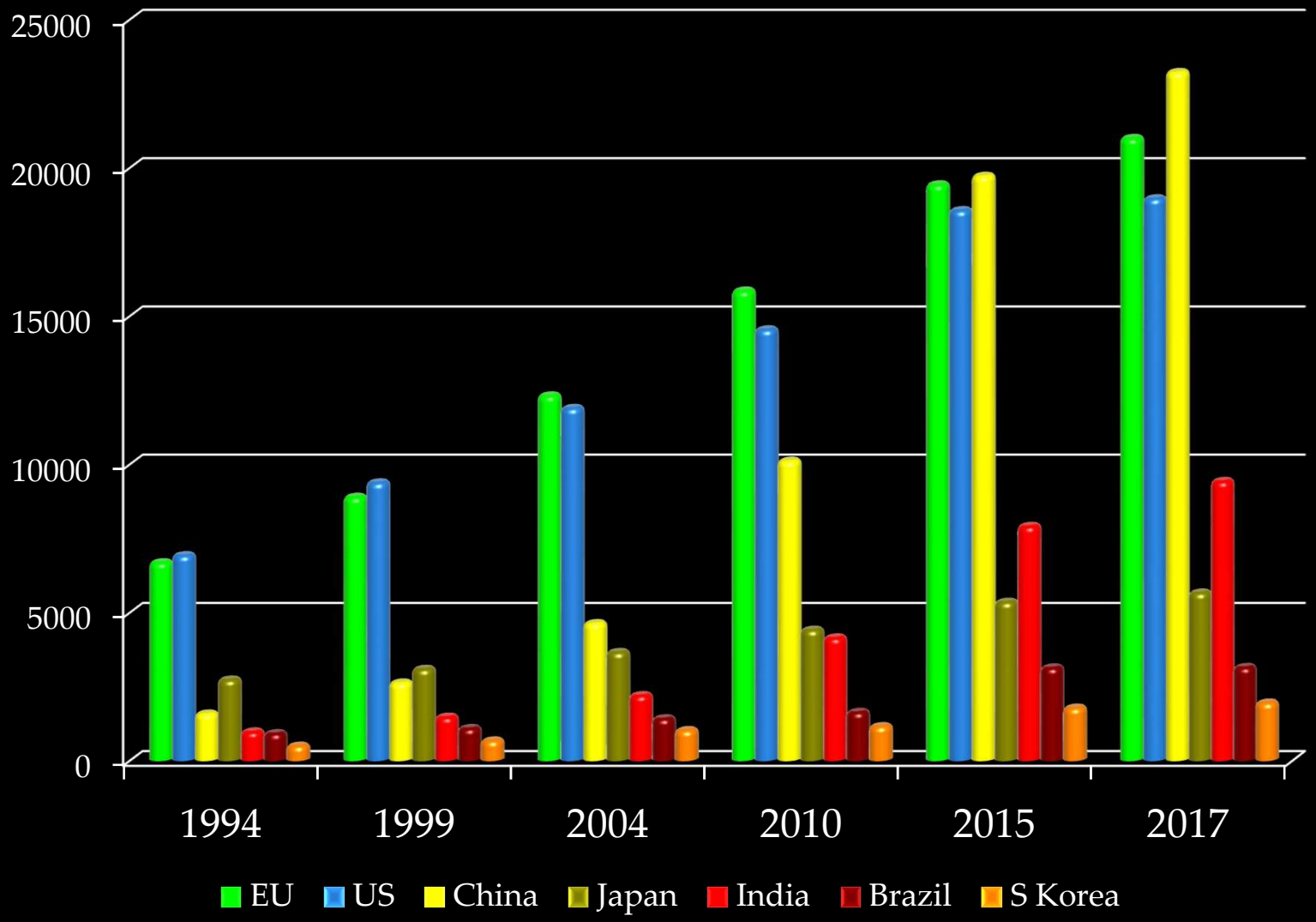
Source: World Bank DataBank



Economic Size

GNI, in bn U.S. $ (PPP)

Source: World Bank DataBank

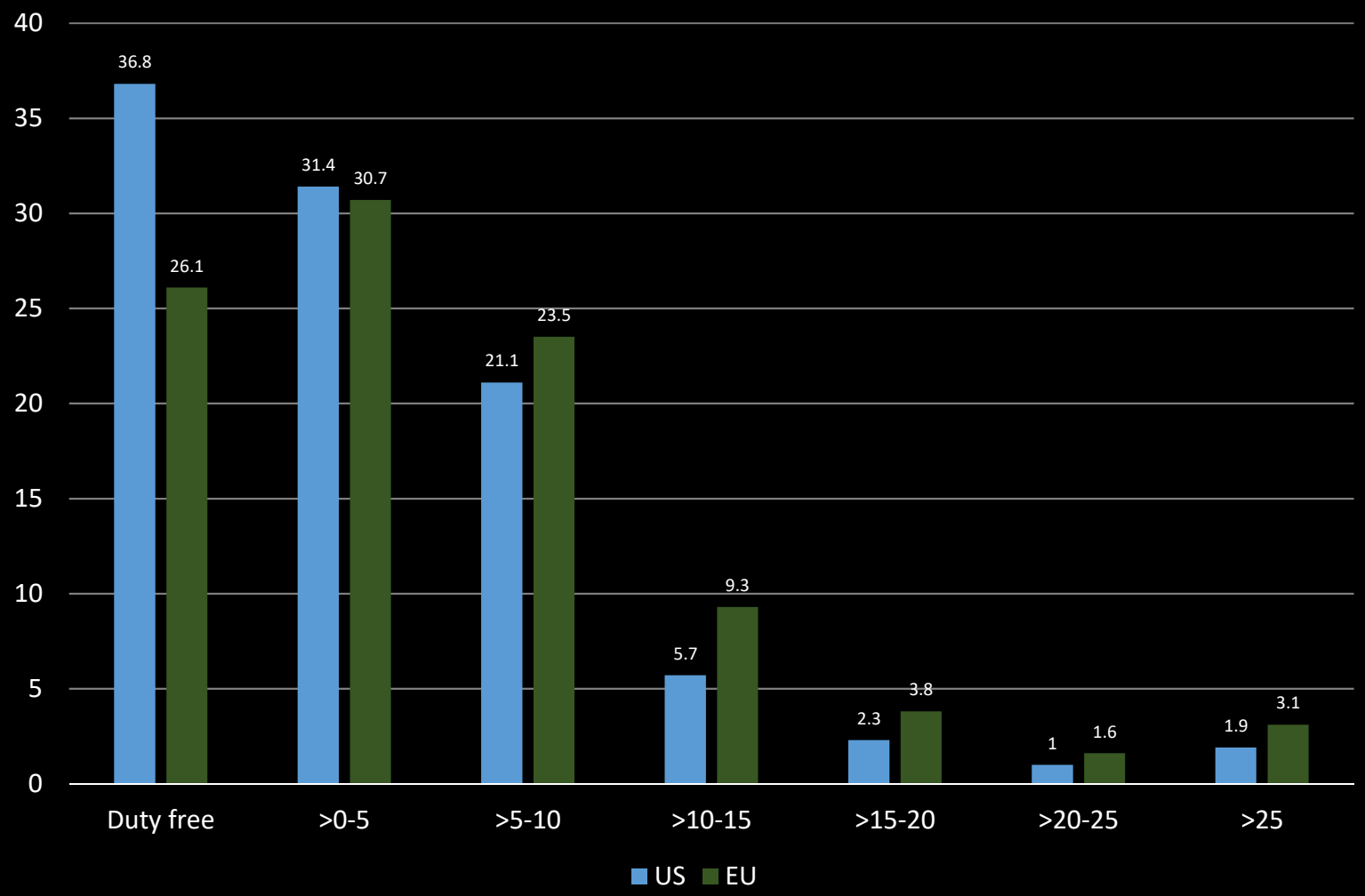


Trade Protection and Openness

	US 2016	EU 2016
Total number of tariff lines	10.516	9.414
Non-ad valorem tariffs (as % of all tariff lines)	10,9	10,7
Non-ad valorem with no AVEs (as % of all tariff lines)	0,0	3,0
Lines subject to tariff quotas (as % of all tariff lines)	1,9	4,7
Duty free tariff lines (as % of all tariff lines)	36,8	25,1
Average rate of the non-zero tariff lines (in %)	7,6	8,6
Simple average tariff (in %)	4,8	6,4
International peak tariffs (≥15%)(as % of all tariff lines)	5,1	8,8
Nuisance tariffs (0%<x≤2%)(as % of all tariff lines)	7,8	7,8

Source: WTO Trade Policy Review, United States 2016; European Union 2017

Tariff Distribution

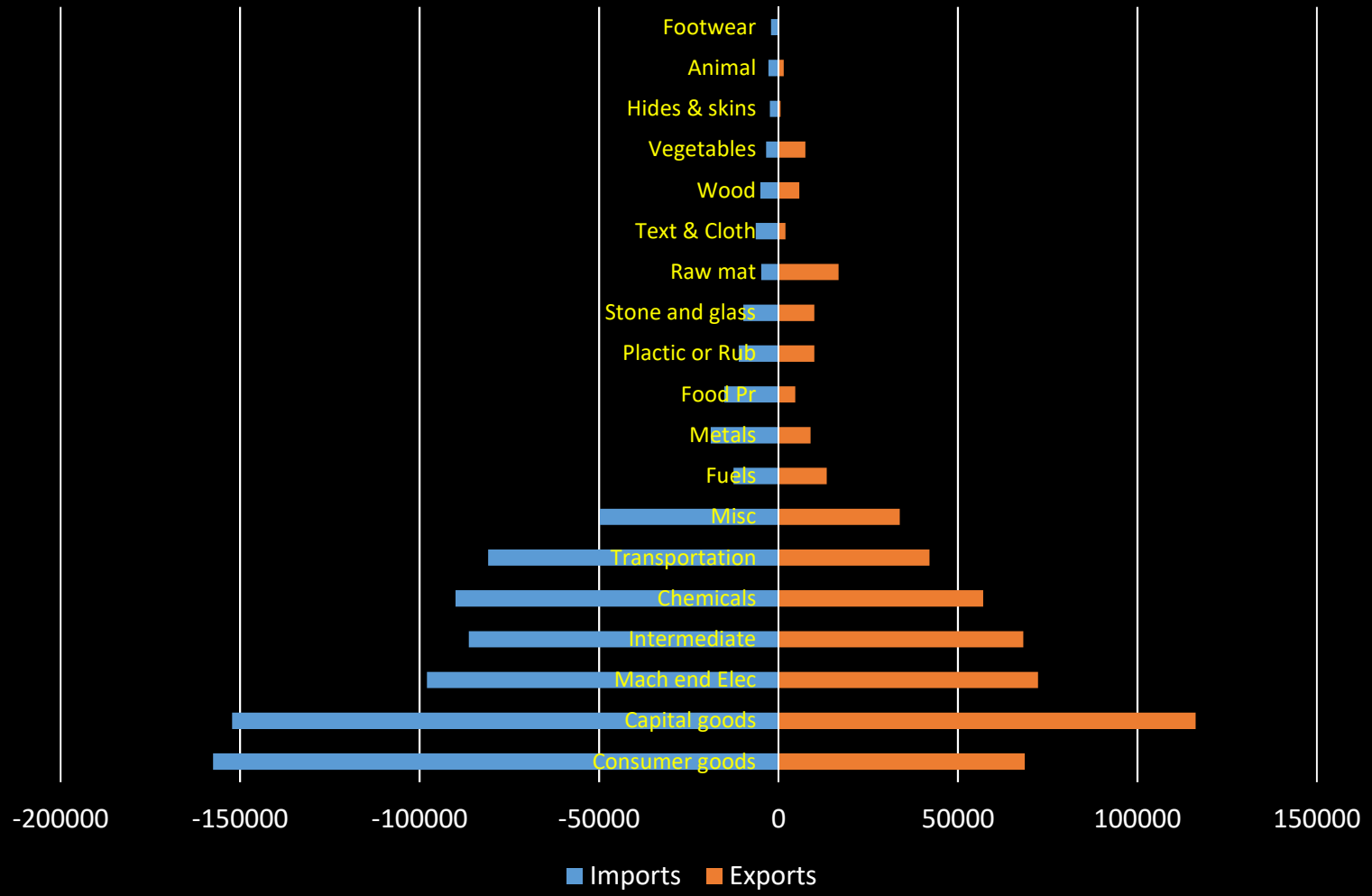


Source: WTO Trade Policy Review, United States 2016; European Union 2017

The Bilateral Transatlantic Trade Relationship

The Bilateral Transatlantic Trade Relationship

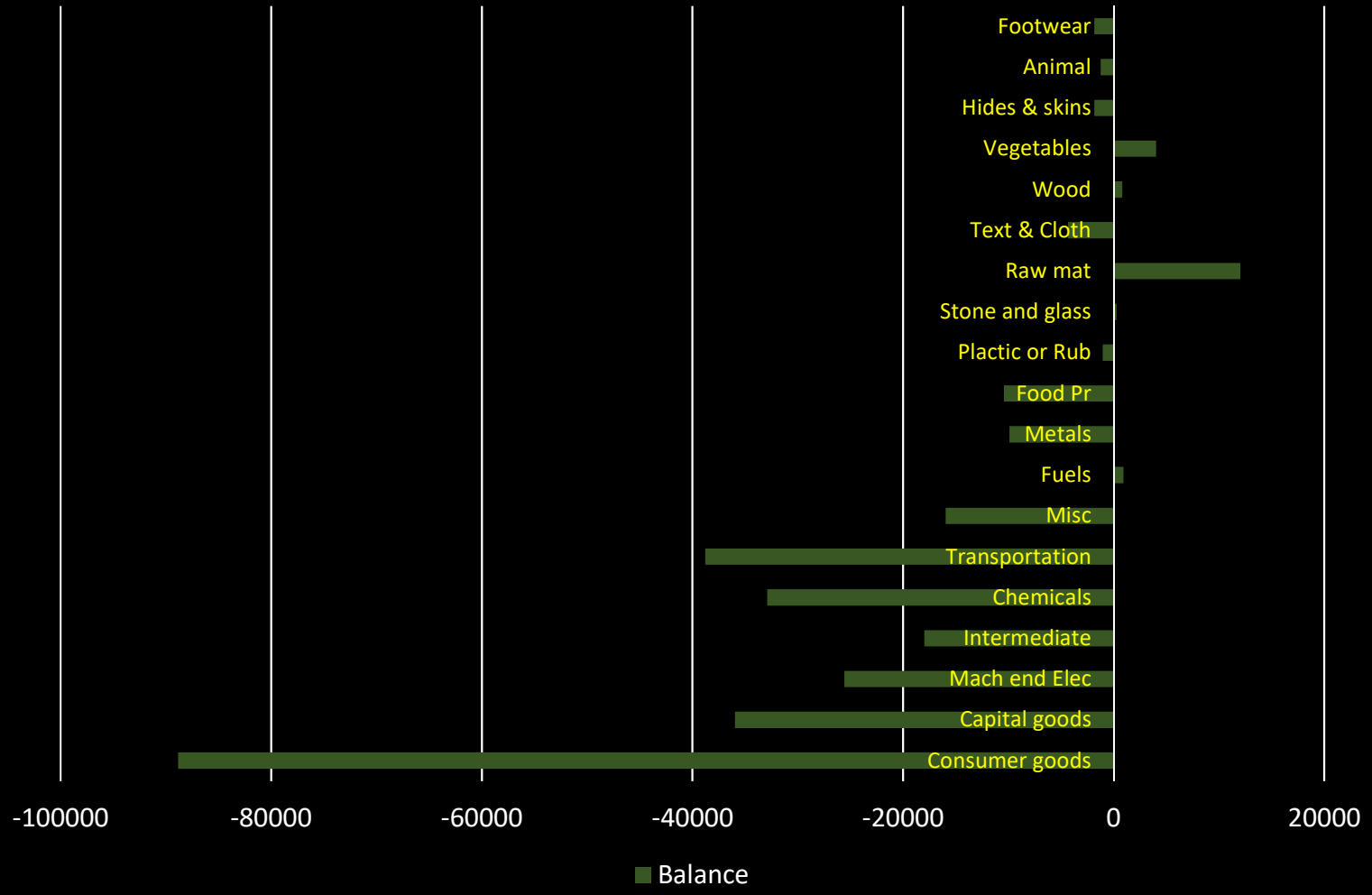
U.S. imports from and exports to the EU, by large product category



Source: WITS Trade Database, data for 2015

The Bilateral Transatlantic Trade Relationship

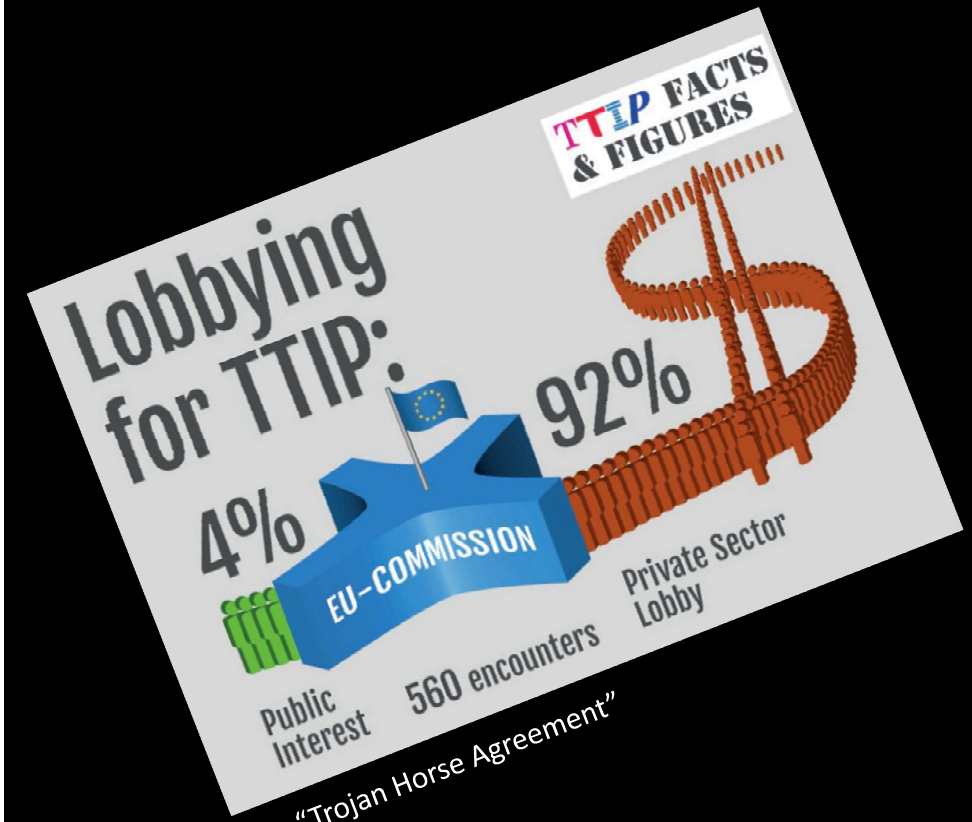
U.S. trade balance with the EU, by large product category



Source: WITS Trade Database, data for 2015

The Bilateral Transatlantic Trade Relationship

The Hot Issues



The "Trojan Horse Agreement"

The Bilateral Transatlantic Trade Relationship

The Hot Issues

The Bilateral Transatlantic Trade Relationship

The Hot Issues

Already today, the United States and the European Union have a $1 trillion bilateral trade relationship – the largest economic relationship in the world. We want to further strengthen this trade relationship to the benefit of all American and European citizens.

This is why we agreed today, first of all, to work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods. We will also work to reduce barriers and increase trade in services, chemicals, pharmaceuticals, medical products, as well as soybeans.

This will open markets for farmers and workers, increase investment, and lead to greater prosperity in both the United States and the European Union. It will also make trade fairer and more reciprocal.

Secondly, we agreed today to strengthen our strategic cooperation with respect to energy. The European Union wants to import more liquefied natural gas (LNG) from the United States to diversify its energy supply.

Thirdly, we agreed today to launch a close dialogue on standards in order to ease trade, reduce bureaucratic obstacles, and slash costs.

Fourthly, we agreed today to join forces to protect American and European companies better from unfair global trade practices. We will therefore work closely together with like-minded partners to reform the WTO and to address unfair trading practices, including intellectual property theft, forced technology transfer, industrial subsidies, distortions created by state owned enterprises, and overcapacity.

Joint U.S.-EU Statement, Washington DC, July 25, 2018

The Bilateral Transatlantic Trade Relationship

The Hot Issues

"Two weeks go by. No negotiation. I say, 'Jean-Claude, you don't have to negotiate anymore, Jean-Claude. I am going to put a 25 percent tariff on Mercedes Benz, BMW, and every car you send in to the United States. We're putting a 25 percent tariff or tax on every car, millions and millions of cars, that you send in to the United States." He said, 'No, no, no, please! I will be there tomorrow morning.' This was an evening. I get to my office. He's there."

Inside U.S. Trade, Oct. 8, 2018

Part 2: Congress and the Presidency

Two U.S. Players on Trade

Delegated Trade Negotiating Authority

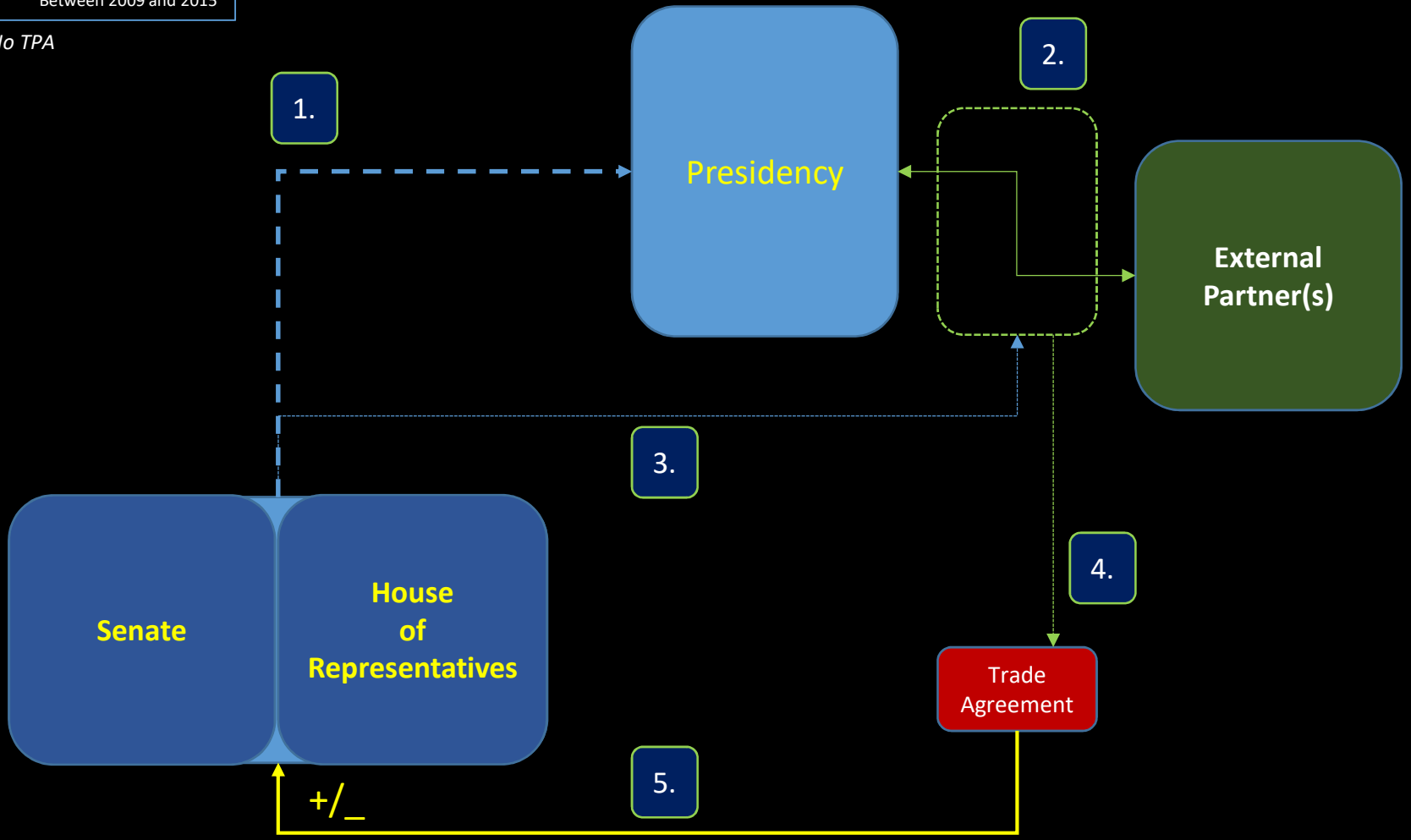
Bipartisan Congressional Trade Priorities and Accountability Act of 2015

Bill Clinton:
- Between 1994 and 2001

George W. Bush:
- Between 2001 and 2002
- Between 2007 and 2009

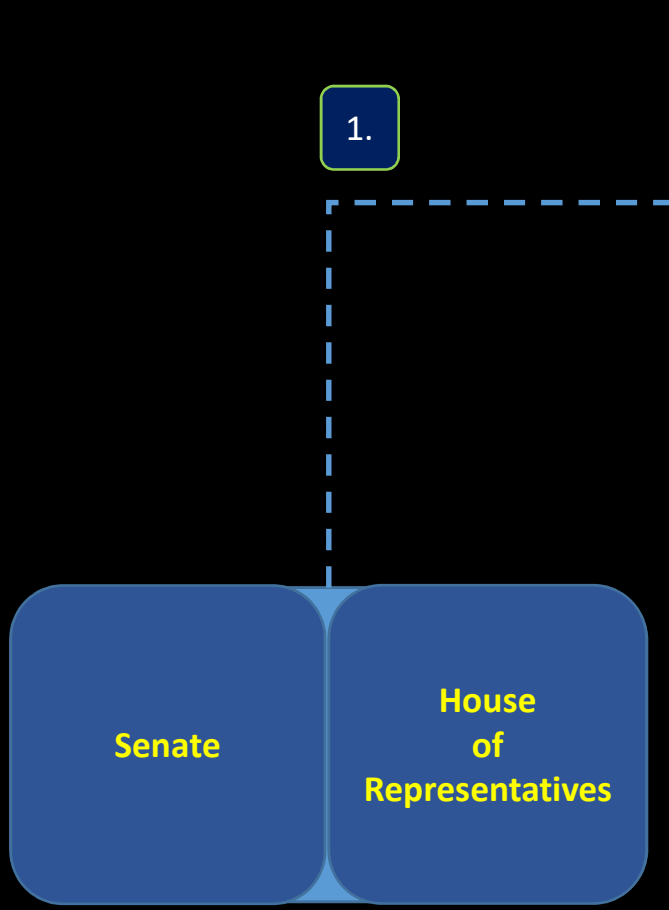
Barrack Obama:
- Between 2009 and 2015

No TPA



Delegated Trade Negotiating Authority

Bipartisan Congressional Trade Priorities and Accountability Act of 2015



Principal Trade Negotiating Objectives

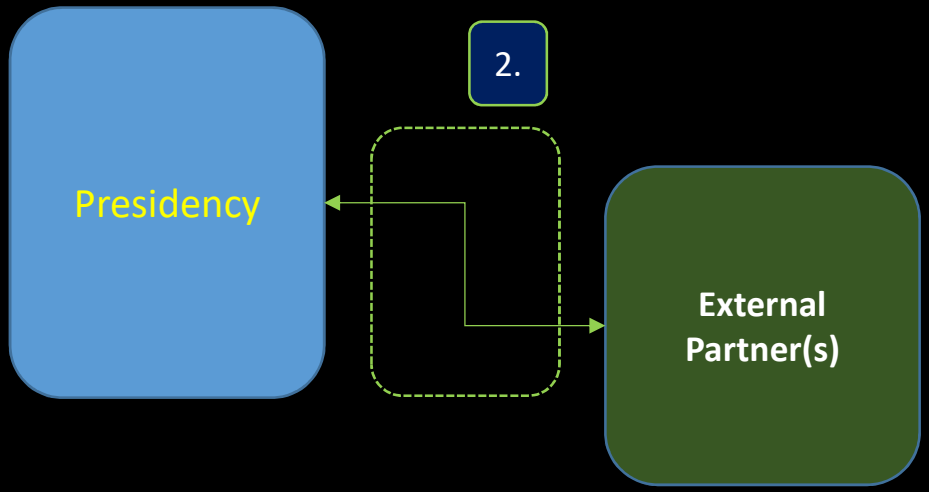
- the reciprocal elimination of tariff and non-tariff barriers on trade in goods
- the reduction or elimination of barriers – including regulatory ones – on trade in services, including with regard to national treatment and the establishment or operations of service suppliers
- the reduction or elimination of "artificial or trade-distorting barriers" to foreign investment
- , the adequate and effective protection of intellectual property rights to a level that reflects the standards of protection "similar to that found in the United States"
- , the adequate and effective protection of intellectual property rights to a level that reflects the standards of protection "similar to that found in the United States"
- the assurance that parties to such an agreement adopt and maintain measures implementing internationally recognized core labor standards, and do not fail to enforce their own environmental or labor laws

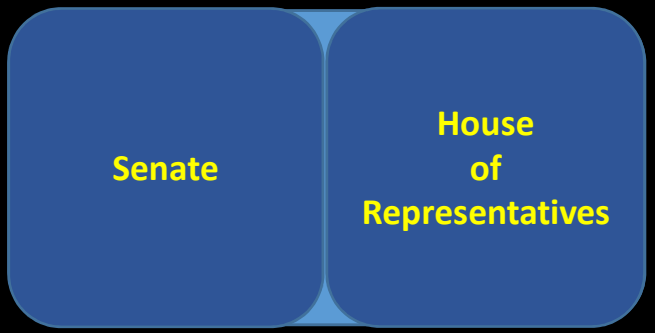
Delegated Trade Negotiating Authority

Bipartisan Congressional Trade Priorities and Accountability Act of 2015

90 days notification about the intention to engage into a negotiation:

- The nature of the intended agreement
- The objectives that the agreement would meet
- The domestic laws that would be affected





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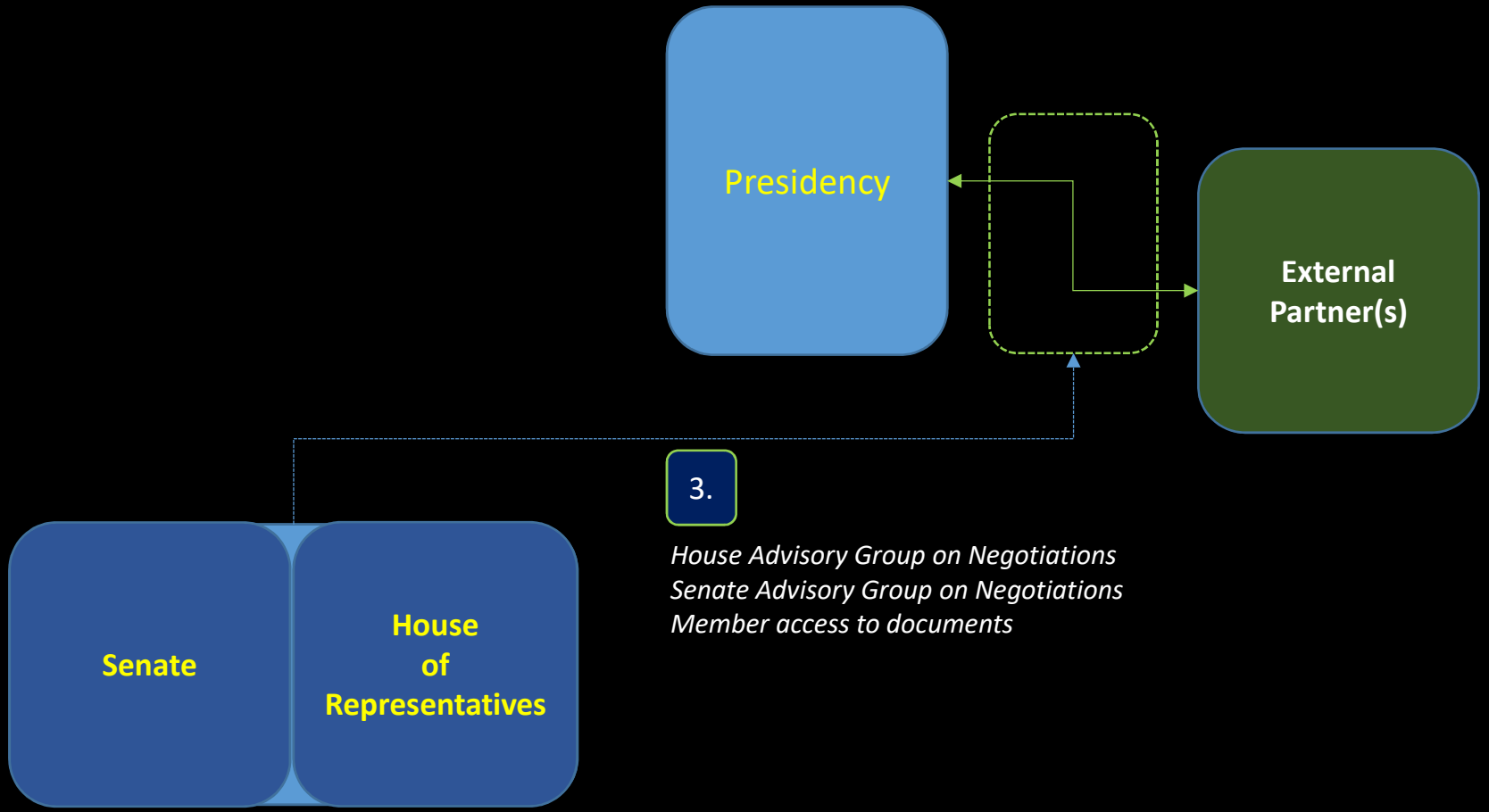

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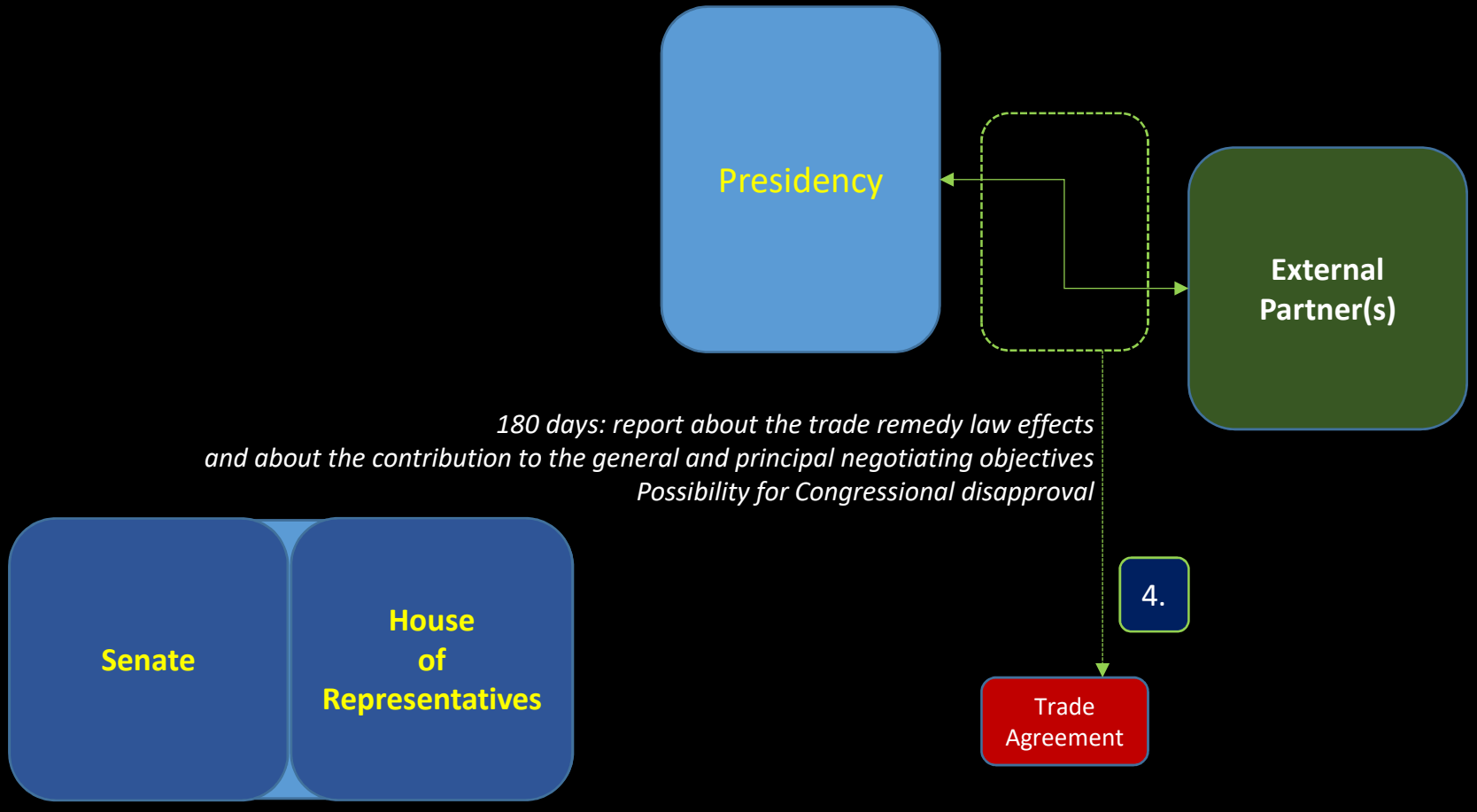

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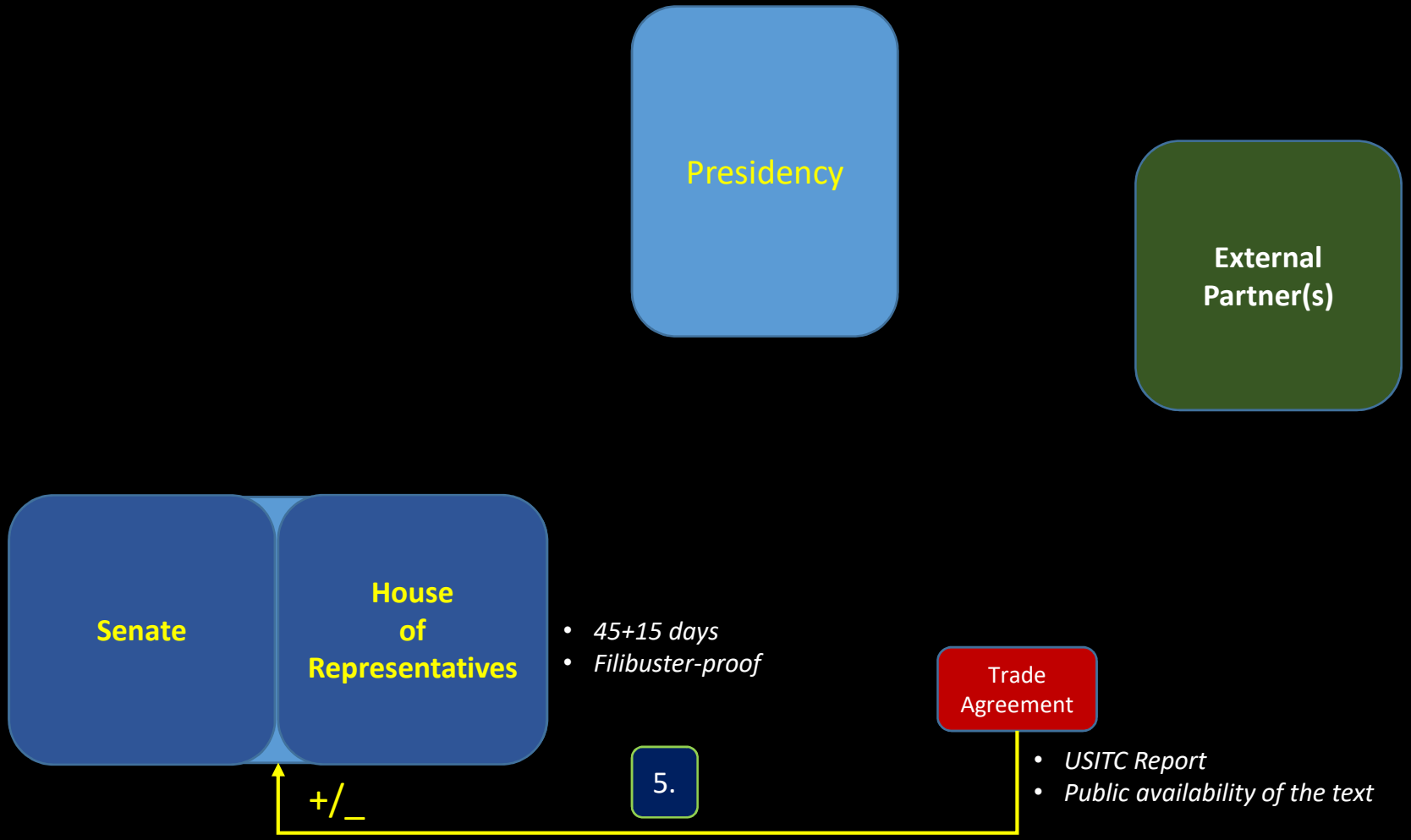
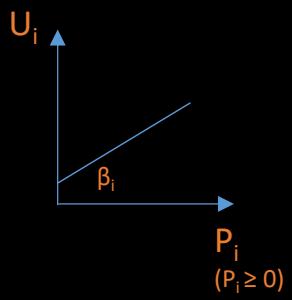
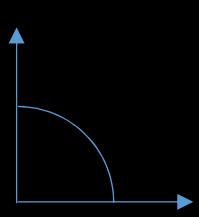


Delegated Trade Negotiating Authority



Weight attached to the benefits of district-specific protection in *i* =*effect of one-unit change in protection for the utility of firms in district i*

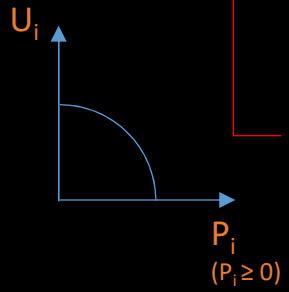
Price-related costs for the consumers in district *i* as a consequence of district-specific protection in *i*



$$U_i(p_1, p_2, \dots\dots, p_n) = \beta_i p_i - p_i^2 - \gamma \sum_{j \in N \setminus i} p_j^2$$

$$i \in N = \{1,$$

Legislator from district *i*'s utility, given protection levels in districts 1->*n* including his/her own



Weight attached to the price-related costs for the consumers in district *i* as a consequence of district-specific protection in all other districts combined (*negative cross-district externalities*)

Based on: KONO, D.Y. (2009), "Market Structure, Electoral Institutions, and Trade Policy", in: *International Studies Quarterly*, Vol. 59, n° 4, pp. 885-9

Delegated Trade Negotiating Authority

$$U_P(p_1, p_2, \ldots\ldots, p_n) = \sum_{i=1}^{n} \left(\beta_i p_i - p_i^2 - \gamma \sum_{j \in N \setminus \mathrm{i}} p_j^2 \right)$$

$$i \in N = \{1, \ldots\ldots, n\}$$

= Internalization of all cross-district externalities

The executive takes into account the effect of protection in each district on all other districts. The individual legislator neglects these effects and focuses only on the impact on its own district.

Executive's utility, given protection levels in districts 1->*n* including district *i*

Based on: KONO, D.Y. (2009), "Market Structure, Electoral Institutions, and Trade Policy", in: *International Studies Quarterly*, Vol. 59, n° 4, pp. 885-9

Delegated Trade Negotiating Authority

$$U_i(p_1, p_2, \dots\dots, p_n) = \beta_i p_i - p_i^2 - \gamma \sum_{j \in N \setminus \mathrm{i}} p_j^2$$

Maximization of U_i through p_i, given β_i

Given logrolling

$$\rightarrow \frac{dU_i}{dp_i} = 0$$

$$U_i' \rightarrow \beta_i - 2p_i = 0$$

$$\rightarrow \beta_i = 2p_i$$

$$\rightarrow p_i = \frac{\beta_i}{2}$$

$$U_P(p_1, p_{2,\dots\dots,} p_n) = \sum_{i=1}^{n} \left(\beta_i p_i - p_i^2 - \gamma \sum_{j \in N \setminus \mathrm{i}} p_j^2 \right)$$

Maximization of U_i through p_i, given β_i and γ

$$\rightarrow \frac{dU_i}{dp_i} = 0$$

$$U_P' \rightarrow \beta_i - 2p_i - 2[\gamma(n-1)]p_i = 0$$

$$\rightarrow \beta_i - 2p_i - 2p_i[\gamma(n-1)] = 0$$

$$\rightarrow \beta_i = 2p_i + 2p_i[\gamma(n-1)]$$

$$\rightarrow \beta_i = 2p_i[1 + \gamma(n-1)]$$

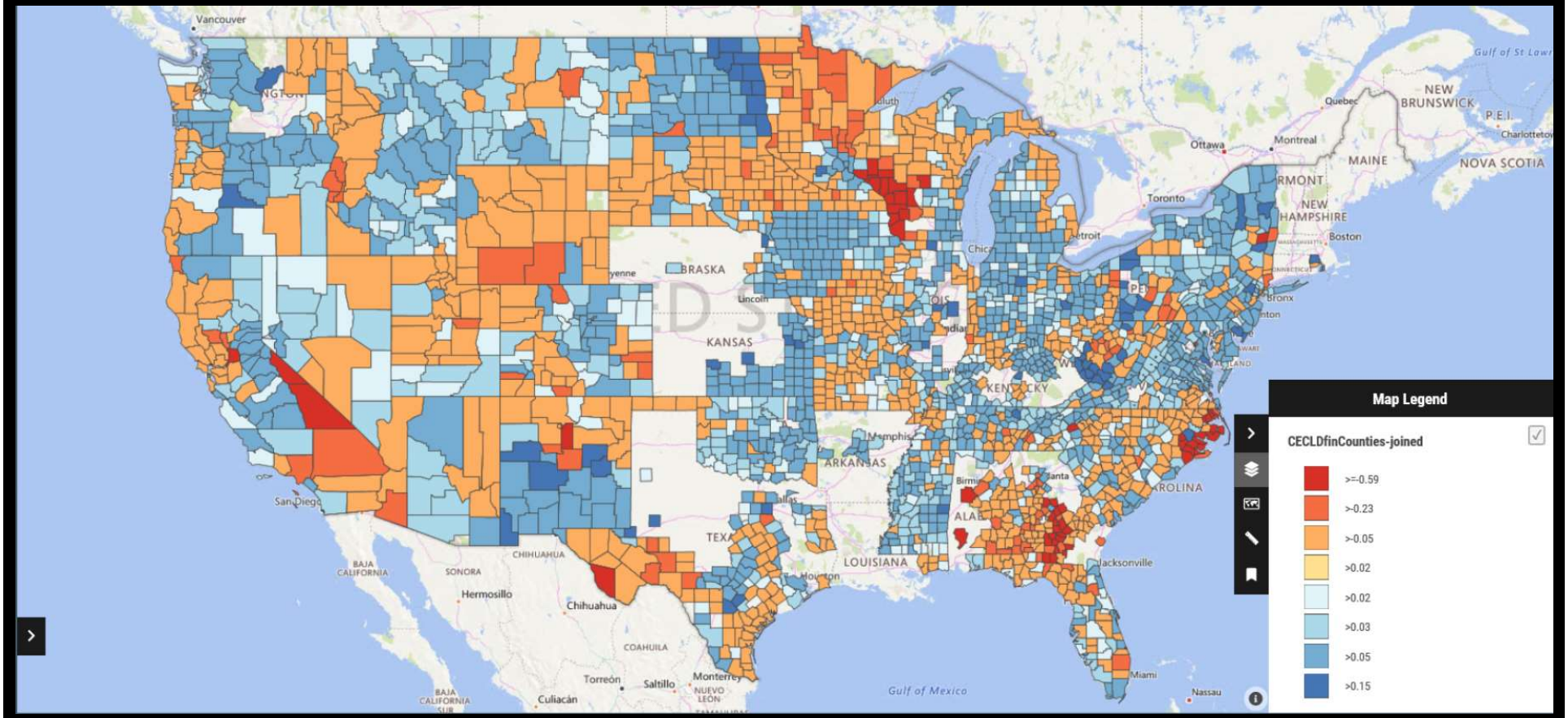
$$\rightarrow p_i = \frac{\beta_i}{2[1 + \gamma(n-1)]}$$

Based on: KONO, D.Y. (2009), "Market Structure, Electoral Institutions, and Trade Policy", in: *International Studies Quarterly*, Vol. 59, n° 4, pp. 885-9

Part 3: The Elections of 2016 and 2018

Two Struggles for Power

The 2018 Congressional Elections versus those of 2016



Sources:
2018: https://data.floridatoday.com/election-results/area/bibb-county-al/ (raw data)
2016: https://uselectionatlas.org/ (Leip's Election Atlas data)

Delegated Trade Negotiating Authority

114th Congress

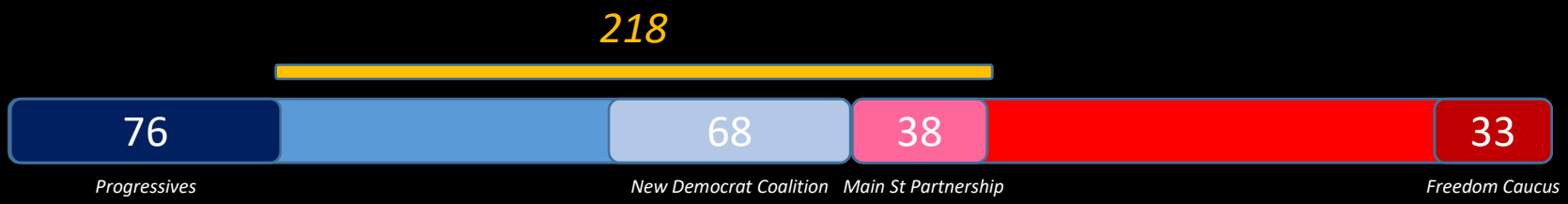
2015-2016

Bipartisan Congressional Trade Priorities and Accountability Act of 2015

Senate				House			
Yes	48	14	62	Yes	190	28	218
No	5	32	37	No	50	158	208

116th Congress

2019-2020



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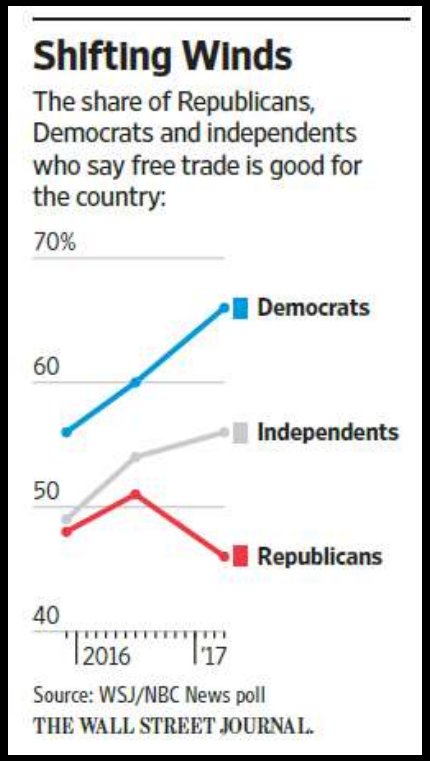
The 2018 Congressional Elections and Trade

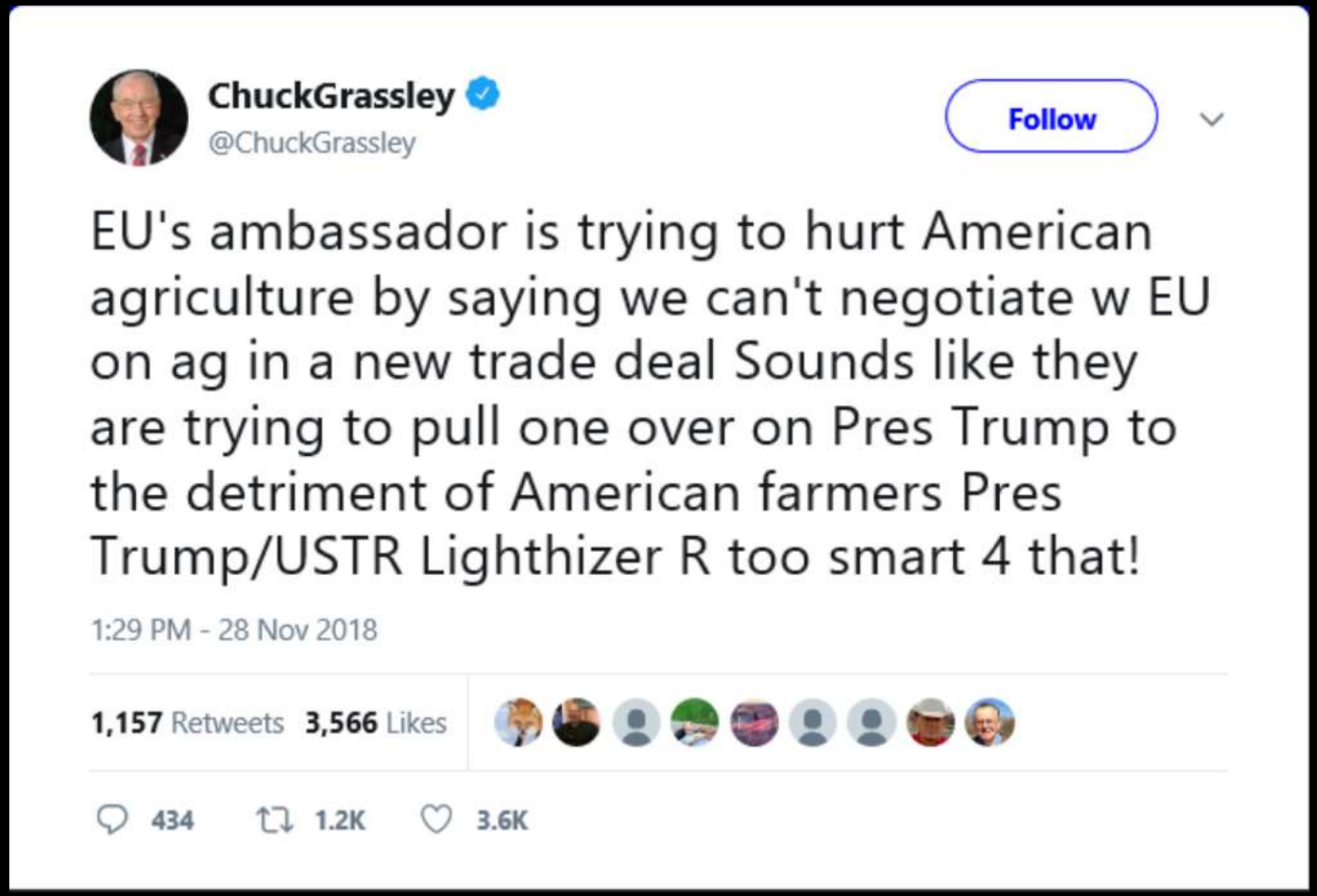
What is the Direction of the Causality ?



The Wall Street Journal, March 9, 2018

The Bilateral Transatlantic Trade Relationship

The Hot Issues



Trump and his Party

Source: The Wall Street Journal, March 8, 2018