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Crunch time for Donald Trump on trade

President's vow to bring back jobs by rewriting Nafta clashes

With realities of global commerce

Shawn Donnan

From its home on the banks of Mark Twain's Mississippi river to its dedication to using American steel, the Winegard Company is the sort of flag-waving, family-owned US manufacturer that Donald Trump loves to celebrate.

The satellite television dishes that its Burlington, Iowa, factory punches out every three or four seconds sit on roofs across the US, while its domed antennas bring mobile internet and TV to legions of grandparents criss-crossing the country in recreational vehicles.B
ut these days executives at the company, based in one of the many Midwest counties that Mr Trump won in last year's election, are bemused with the president.

Having put a "Made in America" agenda designed to restore manufacturing jobs at the centre of its economic policy, the Trump administration is actually making business more complicated for Winegard, they complain. Even worse, it is causing the company to consider moving production outside the US for the first time in its history.

Mr Trump's push to renegotiate the North American Free Trade Agreement, which begins this week when negotiators from Canada and Mexico descend on Washington for the first

round of talks, is putting at risk Winegard's foray into a fast-growing Mexican market it spent years cultivating.

"Mexico as a developing nation is very important to us. They're developing the same technology that we've been manufacturing and trading in for the past 15 years," says Jim Riffel, the general manager of Winegard's satellite division and an almost 40-year veteran of the company. "What Nafta really does is simple: it puts us on an equal playing field with our competitors."

The company's angst illustrates how Mr Trump's campaign promises to rip up trade agreements and protect heavy industries like steel are running into the complex realities of international supply chains. Examine Winegard's business model and you encounter how the president's economic nationalism is clashing with the complexities of what the label "Made in America" actually means in today's world.

Founded in 1953, Winegard for decades produced terrestrial TV antennas, then turned to the home satellite market as it saw technology catch up. With just 400 employees it has a corporate culture much like the nimble niche manufacturers in Germany's Mittelstand companies. "Evolve or Perish" is the title of a white paper posted on its website. Executives boast of highly automated production lines and a low cost base that allow them to beat rivals from China and Europe.

Winegard's supply chain and customers stretch far beyond the Iowa plains. Most of its electronic components come from Asia. Its fastest-growing new market lies in Mexico. And yet the company remains proud that its antennas are stamped out of American steel, even as that poses another point of friction with the new powers in Washington.

Robert Lighthizer, the media-shy US trade representative has since April been developing a plan to restrict steel imports with the goal of driving up its price and helping an ailing domestic industry that complains it has been hit by unfair competition from China. For Winegard that would mean higher prices for a key input. It also brings back memories of 2002 steel tariffs imposed by the administration of George W Bush that left the company "eating margins" until the levies were reversed, says Mr Riffel."Quite frankly we've been through this once before. It sounds great [to people in Washington]. You're going to allow the steel companies to make more money. So now our price of steel is going to go up," says Grant Whipple, Winegard's president. "If we're trying to compete on a global scale [the result is] we've just been priced out of the market . . . what does that do for us? We have to move our production to somewhere else to get that advantage, whether it's Mexico or Asia."

Mr Trump's "America First" economics are built around the idea that lower taxes, a reduced regulatory burden, stricter enforcement of trade rules and a rewriting of trade agreements such as Nafta can lure manufacturing jobs home to the US.The president has had some success in his push for deregulation. A big effort on tax reform is due in the autumn, having

been held up by his Republican party's unsuccessful battles to repeal Obama-era healthcare reforms. When it comes to trade, however, Mr Trump has threatened much and achieved little so far besides pulling the US out of the Trans-Pacific Partnership negotiated by the Obama administration.

His biggest trade test yet lies in the renegotiation of the 23-year-old Nafta, which Mr Trump railed against during last year's campaign. This year he threatened to pull out of the pact before opting for a renegotiation after lobbying from business, his cabinet and the leaders of Canada and Mexico, Prime Minister Justin Trudeau and President Enrique Peña Nieto.

Wilbur Ross, US commerce secretary, has criticised Nafta's rules of origin for cars as a core part of Mr Trump's "Made in America" offensive. His unabashed goal is to bring manufacturing jobs back from a Mexico that over the past two decades has become an important low-cost production base for US companies. Mr Trump's aides are talking about "repatriating" supply chains. But the Nafta exercise is also a gauge of how, despite Mr Trump's continuing love of hyperbole, his presidency has seen a moderating of his trade plans. His campaign threat to impose a "border tax" on companies that move factories to Mexico appears to have died. Instead, his administration has targeted a reduction of the $64bn annual trade deficit in large part by rewriting the "rules of origin" that govern production in the bloc and set the threshold for companies to qualify for duty-free access to its markets.

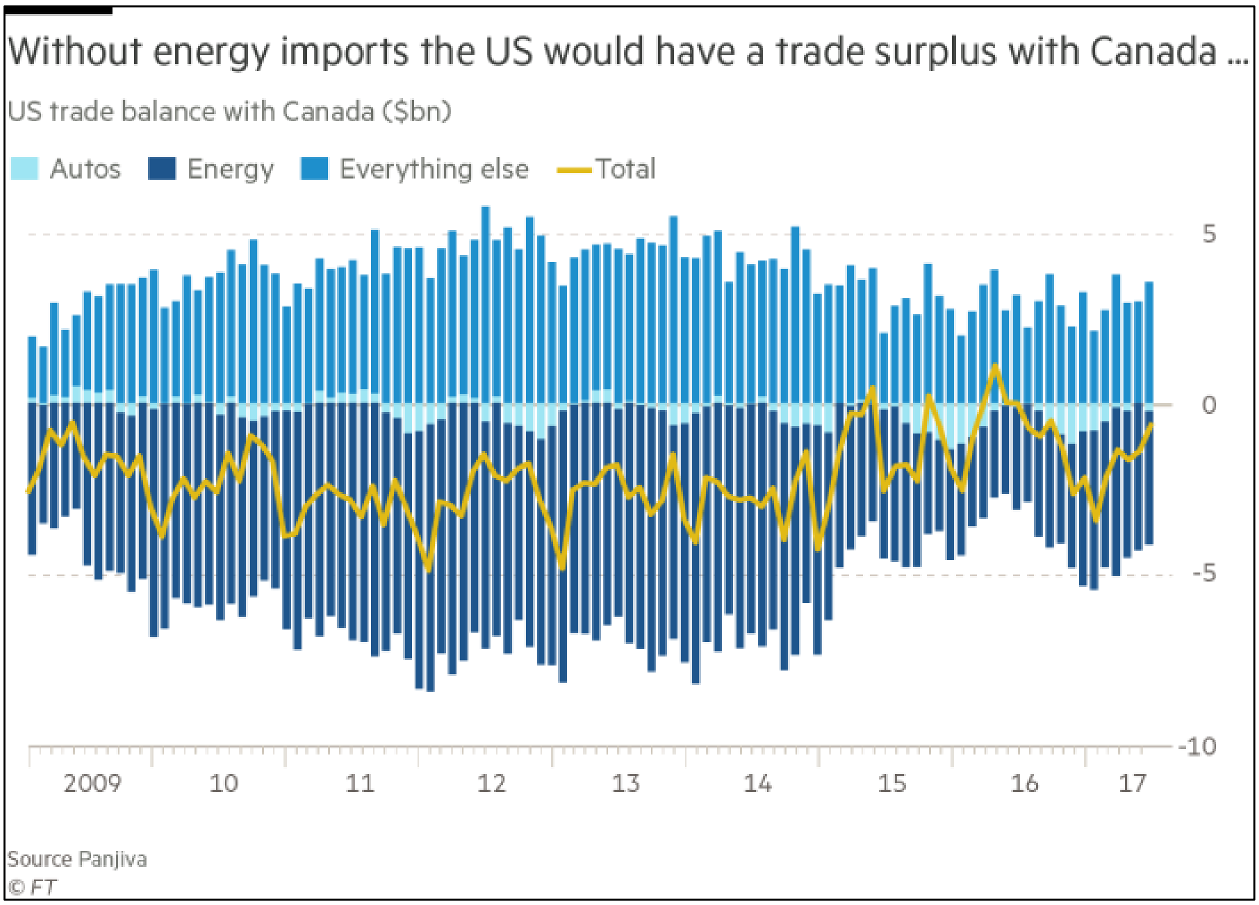
How US negotiators plan to do that in accelerated talks that they want to conclude by early 2018 — because of Mexican elections next July — remains unclear. Robert Lighthizer, the US trade representative leading the effort, has emerged as one of Mr Trump's most media-shy cabinet members. Cryptic negotiating objectives sent by the administration to Congress last month promised only to "update and strengthen" the rules.

Speaking before the Economic Club of Washington last month, Wilbur Ross, the billionaire investor turned commerce secretary, cited the Nafta rules of origin for cars as evidence for the pact's obsolescence. "Whoever drafted it thought he was being very, very clever by specifying the parts to which these [rules] applied. Well, that was great back then, but half those parts aren't even used in cars any more," he said. Some within the Trump administration have called for the inclusion of new US production requirements in the Nafta rules. Privately, Canadian and Mexican negotiators call that a non-starter and say it would defeat the purpose of a regional pact. But they also concede they have to find a way for Mr Trump to be able to claim victory to rust belt voters attracted in part by his promise to rip up Nafta.

"We have to find ways where he can declare victory without it being seen in either Mexico or Canada as being a loss," says David MacNaughton, Canada's ambassador to the US.One big advocate of new rules is the US steel industry. It is pushing for the 62.5 per cent Nafta threshold of regional content for cars to qualify for tariff-free access to be raised and a requirement to be inserted for parts such as doors to include North American steel. That, the industry lobbyists argue, would require European and Japanese automakers operating in the US and Mexico to source more parts locally and boost demand for US steel.Canadian

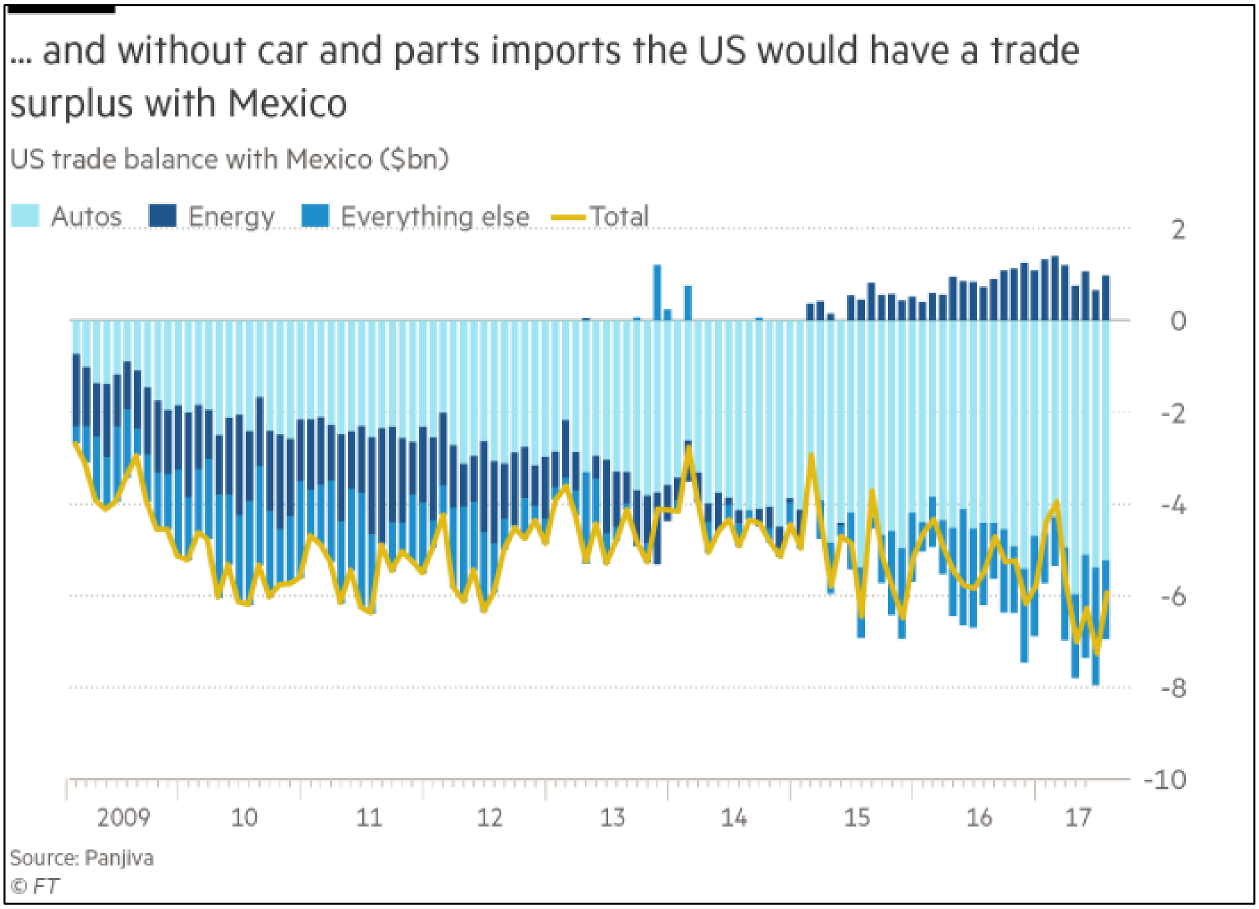
premier Justin Trudeau with Donald Trump at the G7 summit in May © AFP"Automobiles and auto parts . . . are the entire trade deficit with Mexico. You can't get at the trade deficit unless you address autos and auto parts and one of the ways you get at that is through the rules of origin and regional content rules," says Scott Paul, president of the Alliance for American Manufacturing, a think-tank funded by the United Steelworkers union and US steel companies.

Mr Paul argues that the new Nafta could also include more forward-looking requirements, such as for Nafta-made cars to include batteries produced in North America. Given the growing demand for electric cars and batteries in general it is a rule that could stand the test of time, he says. It would also benefit US companies more than their Nafta rivals as neither Canada nor Mexico has significant battery industries.



The calls for stricter rules of origin are strenuously opposed by the US auto industry, however. It says the 62.5 per cent threshold is the strictest of any trade agreement worldwide and that any change would hurt the US sector's international competitiveness.

Enrique Peña Nieto, Mexico's president, meets Mr Trump at the G20 summit in Hamburg in which represents Detroit's big three manufacturers — Fiat Chrysler, Ford and General Motors — argues that rather than create jobs, stronger Nafta rules would "eliminate American jobs and inhibit overall US economic growth".



"The perceived link between an increase in the stringency of the Nafta rule of origin . . . and an increase in the purchase of US-made auto parts, which would boost auto parts manufacturing and the jobs that manufacturing supports, is tenuous at best," it said in a recent submission to the Trump administration.

There are also signs the president's push to stop US automakers from putting factories in Mexico is backfiring. Facing public pressure from Mr Trump, Ford in January cancelled plans to expand small-car production in Mexico. But in June it announced that it would produce its Focus in China instead, touting savings of $1bn.Caroline Freund, a senior fellow at the Peterson Institute for International Economics, argues that the rules of origin need to become less stringent to improve US competitiveness. German automakers depend on production in neighbouring eastern European countries, she points out, while Japanese automakers' supply chains stretch into China and Southeast Asia.

"This is the way [global auto] production is in 2017. And there is just no turning back from that," she says.

<u>The debate over Nafta's rules of origin extends far beyond steel and cars.</u>

One US-based solar company wants stricter rules to stop Chinese competitors from using the pact to circumvent US tariffs by making products with Chinese-made cells in Canada or Mexico. The US textile industry is eager to preserve rules that benefit yarn-spinning operations in places such as North Carolina. A California-based subsidiary of industrial giant Caterpillar wants a rewrite of the Nafta rules to avoid tariffs on used gas turbines that are returned from overseas.

For Winegard, however, those debates miss a simple point: it needs Nafta to continue selling its satellite dishes in Canada and Mexico and manufacturing them in the US."Our biggest advantage is we are located in the middle of the United States, a day's drive to Toronto and not quite two days to Laredo and Mexico," says Mr Whipple. "We're right there in the middle of Nafta.

"Trade policy won last year's election thanks to his appeal to American patriotism and nostalgia. And with his "Made in America" push he has summoned a tactic made popular by Ronald Reagan in the 1980s. Like the current president, Mr Reagan mixed boosterism and trade threats aimed at Japan to promote US manufacturing. Backers say it eventually forced Japanese automakers to locate plants in the US. Detractors point out that the Reagan strategy also caused companies such as Toyota to produce higher-value luxury cars to avoid tariffs on cheaper ones and hurt high-end US brands such as Cadillac as a result.

Mr Trump and his aides have gone further than their 1980s predecessors by invoking US national security into the equation. Peter Navarro, a top White House adviser, argues that the loss of manufacturing jobs has hurt the country's defence industrial base and last month launched a detailed study on the subject. The administration has also invoked a rarely used 1962 statute to launch investigations into the impact on US national security of imports of aluminium and steel.

Unlike Mr Reagan, the current president has also benefited from an existing trend. Manufacturing had begun to return to the US under his predecessor, Barack Obama, with low energy prices and other factors such as rising costs of labour in China causing domestic and foreign companies to choose to locate new factories in the US.Harry Moser, founder of the Reshoring Initiative, an advocacy group, says US companies last year still offshored some 50,000 jobs. But that was fewer than the 240,000 average seen annually in the early 2000s, Mr Moser says. It was also offset by 77,000 jobs "reshored" or created by foreign direct investment.

Still, Mr Moser says the president's new push is making a difference, if only by using the "bully pulpit" part of his promise to business. The real lure for companies will come if he is able to deliver on his tax, infrastructure and regulation pledges.

A renegotiated North American Free Trade Agreement, Mr Moser says, is unlikely to yield a rapid return of jobs from Mexico. But he hopes a smart update of the pact could help stem the flow of factories to China and Mexico. "It's going to change the future more than the past," he says.