

Trump's trade follies give Brussels an open door

The EU seeks to assume the leadership role in the global system

Donald Trump's trade policy has been, to date, more sound than fury. The president favours hot rhetoric about pulling out of trade agreements and reducing US trade deficits with whacking big tariffs. But the actions of his administration, with the exception of pulling out of the Trans-Pacific Partnership, are comparatively tepid.

Instead of tearing up the North American Free Trade Agreement with Canada and Mexico, the US has started negotiations to change it. Rather than slapping tariffs on China to punish it for trade-distorting actions, the US has started an investigation into Chinese abuses of intellectual property rights.

The **latest bark** was a threat to abrogate the Korea-US (Korus) bilateral trade agreement, which went into effect in 2012. The administration this week has once again stopped short of a bite, walking back from the threat. This is a relief. But it confirms that dealing with the US on trade is about damage limitation rather than positive improvements.

The **geopolitical effect of trade deals is often overstated**, but killing Korus would be spectacularly bad timing given events in North Korea and the need to show US engagement in the region. Economically, Korean tariffs are much higher than those in the US, so American exporters would be hurt proportionately more. Symbolically, Washington's threats to withdraw from international agreements leave the field open to the EU to claim the title of leader of the world trading system.

Jean-Claude Juncker, president of the European Commission, plans to announce next week that Brussels will seek new bilateral deals, including with Australia and New Zealand. Later this year, the EU will probably agree a deal with Mercosur, the South American customs union that includes Argentina and Brazil.

Making a splash by signing bilateral deals does not necessarily equal anchoring the world trading system. The effect of the Mercosur deal, for example, will probably be moderated by carving out sensitive subjects, including agricultural products such as beef and sugar, from liberalisation. At the same time as supposedly expanding trade by cutting tariffs, the EU is giving itself more space to restrict it by making it easier to impose anti-dumping and anti-subsidy duties on imports. Still, the overall direction of EU trade policy contrasts sharply with the defensive and destructive attitude taken by the US. The initial reports of renegotiation talks in Nafta are not positive. Rather than updating the agreement to take account of the emergence of new industries since the deal was agreed in 1995, the Trump administration seems obsessed with fighting old battles, namely trying to repatriate more of the auto manufacturing supply chain to within US borders by fiddling about with so-called rules of origin.

Even if the US achieves its aim, this is more likely to mean car manufacturers ignore the deal altogether and outsource more production outside the Nafta countries, paying tariffs rather than complying with more onerous regulations.

The effect of President Trump on global trade remains uncertain, thanks to his eccentric policymaking, but it is unlikely to be positive. The fact that he is prepared to countenance tearing up a deal with Korea at this juncture suggests that his obsession with using trade policy to try to reduce bilateral deficits persists. The rest of the world can only hope that calmer voices in the administration and Congress continue to prevail.