

Trump, Brexit and the EU: Making the case for international trade



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International trade in crisis

Donald Trump will be the next President of the United States. He promised during his campaign that he would renegotiate international trade agreements (FTAs) including the NAFTA – a trade agreement between Mexico, the United States and Canada – and the TPP (Trans-Pacific Partnership Agreement) if he won the election. He held the NAFTA responsible for job losses in America and a decline of US manufacturing. Mr Trump even went so far to say that the NAFTA was “the worst trade deal maybe ever signed anywhere”. He said that if he could not obtain the trade terms he wanted, the US would withdraw from the trade agreement. In his first days as President, Mr Trump plans to announce his intention to keep his promises: to renegotiate the NAFTA, withdraw from the TPP, build a wall along the U.S.-Mexico border (to be paid for by Mexico!), and the adoption of trade measures which are likely to trigger a trade war with two of the top three U.S. trade partners: Mexico and China.

In Europe, the future of the EU’s Trade Policy has been seriously undermined. The Dutch parliament refused to approve the EU trade agreement with the Ukraine. Just recently activists in the Netherlands have been collecting signatures to force a referendum on the CETA (trade pact between the EU and Canada) and the moribund TTIP (a similar pact with the United States). This comes after the CETA was on the verge of failure a few weeks ago, when the Belgian region of Wallonia refused to ratify the interim application of the agreement. This was after the President of the European Commission had decided to classify the CETA as a “mixed” agreement which required the approval of all 28 national parliaments. Some believe that a future trade agreement between the UK and the EU will face the same, if not worse, struggle as CETA.

The benefits of free trade

Against this backdrop, one wonders if Mr Trump, anti-globalisation activists and other politicians in Europe and the U.S. have a valid point against FTAs and economic liberalisation. I believe they do not. Let me explain. Yes, there are winners and losers as a result of free trade agreements (without a doubt in the case of the NAFTA) and yes, they disrupt the domestic economic status quo. The reason is simple. Trade pacts increase competitive pressure on certain businesses by the introduction of foreign goods and services which no longer face tariffs and non-tariff restrictions in the domestic market. This puts pressure on domestic businesses because the trade pact forces them to become

more efficient or face elimination from the market. But this is not necessarily a bad outcome. The economic pressure put on businesses (big and small) promotes efficiency and competitiveness in what is a cruel reality: we live in a globalised, interdependent, competitive and increasingly automated world.

Trade agreements bring tangible benefits to citizens and companies. Moreover, they promote the rule of law. First, free trade agreements reduce the cost of goods by eliminating tariff and non-tariff barriers to trade, including customs taxes and the reduction of customs formalities. This may result in imported goods being cheaper than the less competitive, more costly domestic products. By having access to high-quality, lower price goods, the obvious beneficiary of trade agreements is the consumer.

Second, trade agreements are also designed to benefit exporter-oriented businesses because they open up new international markets for their goods and services and provide them with the opportunity to create new business alliances with foreign companies. Trade pacts also seek to promote transparency in regulations and prevent anti-competitive conduct affecting market access. This promotes foreign direct investment.

Third, trade agreements promote the rule of law and international cooperation between nations. Trade agreements encourage transparency in the government's decision-making process, seek to prevent anti-competitive and discriminatory conduct. In addition, trade agreements become a second line of defence for companies and individuals against arbitrary and discriminatory domestic policies. Finally, by fostering international cooperation, trade agreements constrain unilateralism and, through dispute settlement mechanisms, create a balance of power between the strong and the weaker economy.

Furthermore, trade pacts provide the tools for domestic businesses to reduce costs and become more competitive in the world market by integrating chains of supply within the free trade area. A perfect example is the U.S. manufacturing industry. According to *The Wall Street Journal*, 37% of the U.S.'s imported auto parts came from Mexico and Canada in 2015. In the same year U.S. manufacturers of auto parts sent 61% of their exports to Mexico and Canada. This has enabled U.S. companies to employ more people in the assembly and auto-parts plants in the U.S.

Quitting the NAFTA and returning to WTO terms would mean, for example, that the U.S. automotive industry would have to pay tariffs on autos and auto-parts. The question then is, would an increase in tariffs and trade barriers in North America make the U.S. auto industry more competitive? No. It would make imports more expensive and U.S. companies less competitive.

North America (Mexico, the U.S. and Canada) is the most competitive region in the world. This is to a great extent due to the openness and flexibility of the U.S. economy including trade agreements like the NAFTA. To close the door on the NAFTA would be counterproductive to the very basic notion of creating jobs and making domestic industries efficient and competitive in the world market. The same principle applies to the future trade relationship between the UK and the EU which are economically entwined due to the free flow of goods and services. The CETA and other EU FTAs provide European consumers with goods at a low price and of a high quality which automatically results in better standards of living.

The future of the U.S. and the EU trade policies

Critics of free trade have raised legitimate concerns about the economic liberalisation agenda of most western democracies. There is no doubt there is a real problem with inequality and unemployment in the world, but free trade agreements are not to blame. FTAs are used as scapegoats for problems which have more to do with the complexity of globalisation, fair taxation (or the lack of) and automatization, rather than free trade.

By withdrawing from the NAFTA or other trade agreements, the U.S. would take an unprecedented political move in its history which would not only have negative effects on the U.S. economy, but would also undermine its reputation in the world as a reliable partner. To renegotiate the NAFTA is also not a viable option. The NAFTA is the result of a careful balance of concessions put together like a house of cards. To renegotiate the NAFTA would be like opening Pandora's box. In any event, if Mr Trump wants to renegotiate the NAFTA I have some good news: it has been effectively renegotiated very recently. It is called the TPP.

As to the future of the EU Trade Policy, the EU faces a challenge. The current practice of classifying all free trade agreements as mixed agreements will make it more difficult if not impossible to effectively conclude trade agreements with third countries and the UK. It will inevitably make potential EU trade agreements less ambitious and comprehensive. This will be a step backwards for the EU's policy of progressive abolition of restrictions to international trade and the promotion of economic integration. No doubt the expected decision by the European Court of Justice in the Opinion 2/15 will provide extremely useful guidance on the delimitation of EU competences vis-à-vis those of the Member States on trade matters. It may also clarify the future of the Member States' involvement in shaping the EU's Trade Agenda. Although useful, this will not resolve the most challenging and perhaps existential question of EU Trade Policy. If a trade agreement is classified as a mixed agreement, is it correct that a single Member State (or even a region of that State) can veto an entire free trade agreement? Perhaps this is a good example of where democracy becomes antidemocratic.

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