

# Trade and Exchange- rate Policies under the Trump Administration

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# 1. Which Face of Donald Trump ?

On the first 100 days, listen to what he said :

**“ I’m a nationalist and a globalist,”  
Trump said. “ I’m both. And I’m the  
only one who makes the decision,  
believe me”**

► From WSJ. April 29, 2017.

# Outline

- ▶ **1. Reality check on campaign rhetoric vs policy implementation**
- 2. On currency manipulation**
- 3. On trade policy**
- 4. Toward an US-Taiwan economic partnership under Trump-Tsai administrations**

# I. Campaign rhetoric vs Reality of Policy Implementation

- ▶ 1. Withdrawal from the Trans Pacific Partnership ( TPP ) : the biggest present that he gave to China
- ▶ 2. Look at what he said and what he is doing on the North American Free Trade Agreement :
- ▶ Prepared the administration for withdraw from the NAFTA, then agreed to re-negotiate.

# I. Campaign rhetoric vs Reality of Implementation ( continued)

- ▶ 3. Threaten to re-negotiate the US-KO FTA by insisting South Korea to pay for the installation of the THHAD.
- ▶ 4. Set up three major areas for the U.S.-Japan trade dialogue and negotiation ( rule-based trade and investment standard, economic and fiscal restructures and basic infrastructural and energy collaboration projects) ; a strange bedfellow on trade but a couple of lover on security and defense.
- ▶ Conclusion : **Is Trump's inconsistency a negotiating tactics to seek better deals in the new agreements ?**

## 2. On Currency Manipulation

- ▶ 1. Alleged China as the largest currency manipulator during the campaign, but got China out of the hook after Trump convinced, at least verbally, that China will cooperate on deterring the nuclear development in North Korea.
- ▶ 2. Threatened Mexico as another currency manipulator by imposing a high tariff, and prepared to withdraw from the NAFTA, then agreed to re-negotiate.
- ▶ 3. Imposed 20% of tariff on the import of lumber from Canada, then decided to go to the negotiation table.

## 2. On Currency Manipulation

- ▶ 4. The three criteria of currency manipulation set up by the Treasury Department
  - a. trade surplus against the U.S. over and above \$ 20 billions
  - ▶ b. current account surplus exceeds 3% of GDP
  - ▶ c. central bank repetition intervention in the foreign exchange market with a net purchase of foreign currencies more than 2% of its GDP.

## 2. On Currency Manipulation (continued)

- ▶ Taiwan only fulfills one of the three conditions, i.e. trade surplus as percentage of GDP is 12.82 % in 2015 and 12.02% in 2016 ([www.dgbas.gov.tw](http://www.dgbas.gov.tw)).
- ▶ Treasury Department said Taiwan's current account surplus was well above its threshold and it had purchased about \$1 billion a month during the 12 months through June to limit the Taiwan dollar's appreciation.
- ▶ Taiwan is one of the six countries under the “watching list”. Commerce Department and USTR held a hearing on “Administration Report on Significant Trade Deficits” on May 18. The is author submitted a testimony and attended the hearing in person by defending Taiwan’s foreign –exchange rate policy.



## 2. On Currency Manipulation ( continued)

- ▶ Taiwan adopted a “ managed floating exchange –rate” system. An “ asymmetric currency intervention” in foreign exchange market with more and stronger intervention on “appreciation shock” than on “depreciation shock”阻升不阻貶( Shiu-Sheng Chen,2016) made Taiwan vulnerable to be retaliated by the U.S. government.
- ▶ Taiwan’s GDP per capita under PPP in international dollar and nominal exchange rates is the highest among the six countries under the “ monitoring list”. It could be alleged that the New Taiwan Dollar is under valued.

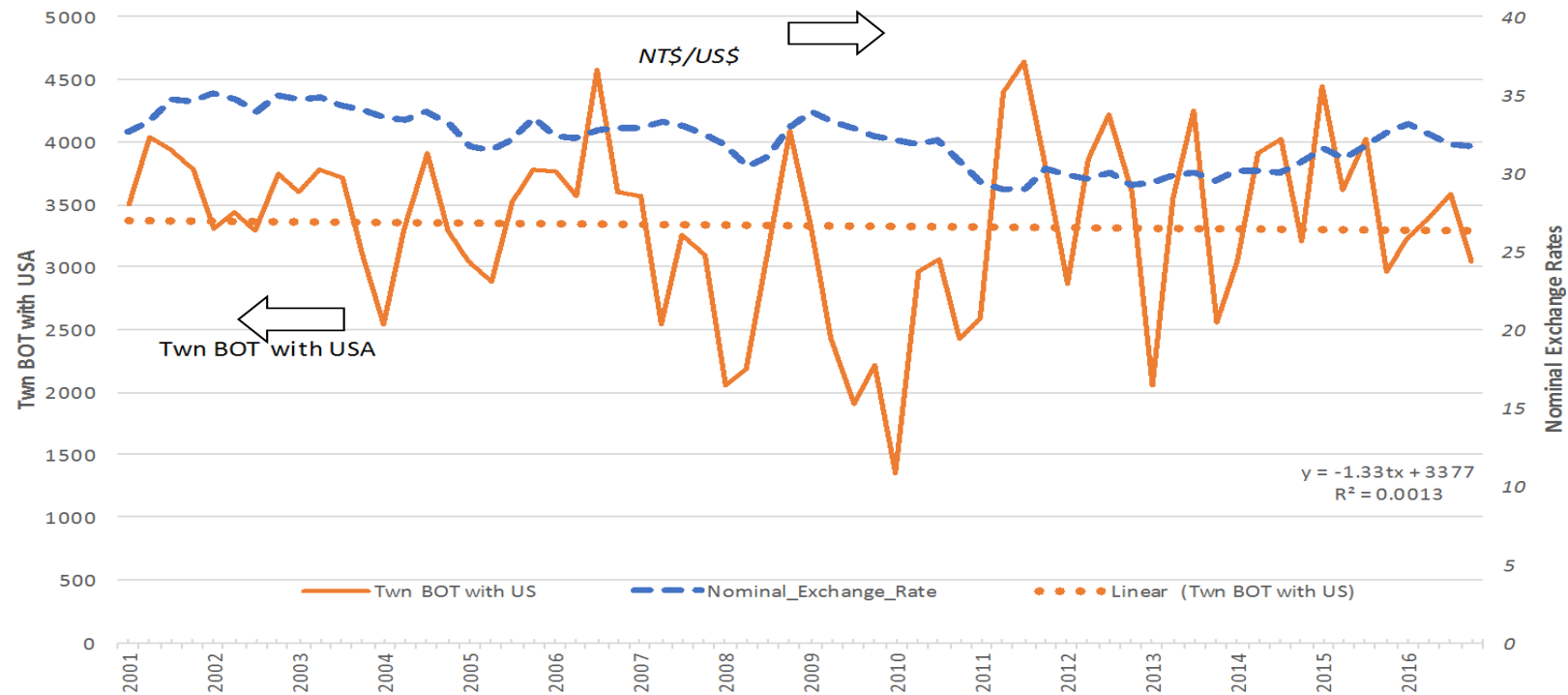
# GDP Per capita in nominal exchange rates and PPP in 2016

Country	nominal GDP per capita (1)	GDP per capita under PPP in international dollar (2)	ratio of GDP per capita under PPP (2)/nominal GDP per capita (1)
China	8,261	15,424	1.867
Germany	42,326	46,240	1.092
Japan	37,304	38,894	1.043
Korea	27,633	37,948	1.373
Taiwan	22,044	47,790	2.168
Switzerland	42,326	59,376	1.403

Data source : IMF World Economic Outlook, 2017.

# Nominal Exchange Rates and Trade Surplus with the U.S.

Figure. 1 Nominal Exchange Rates and BOT  
Taiwan with the USA 2001-2016



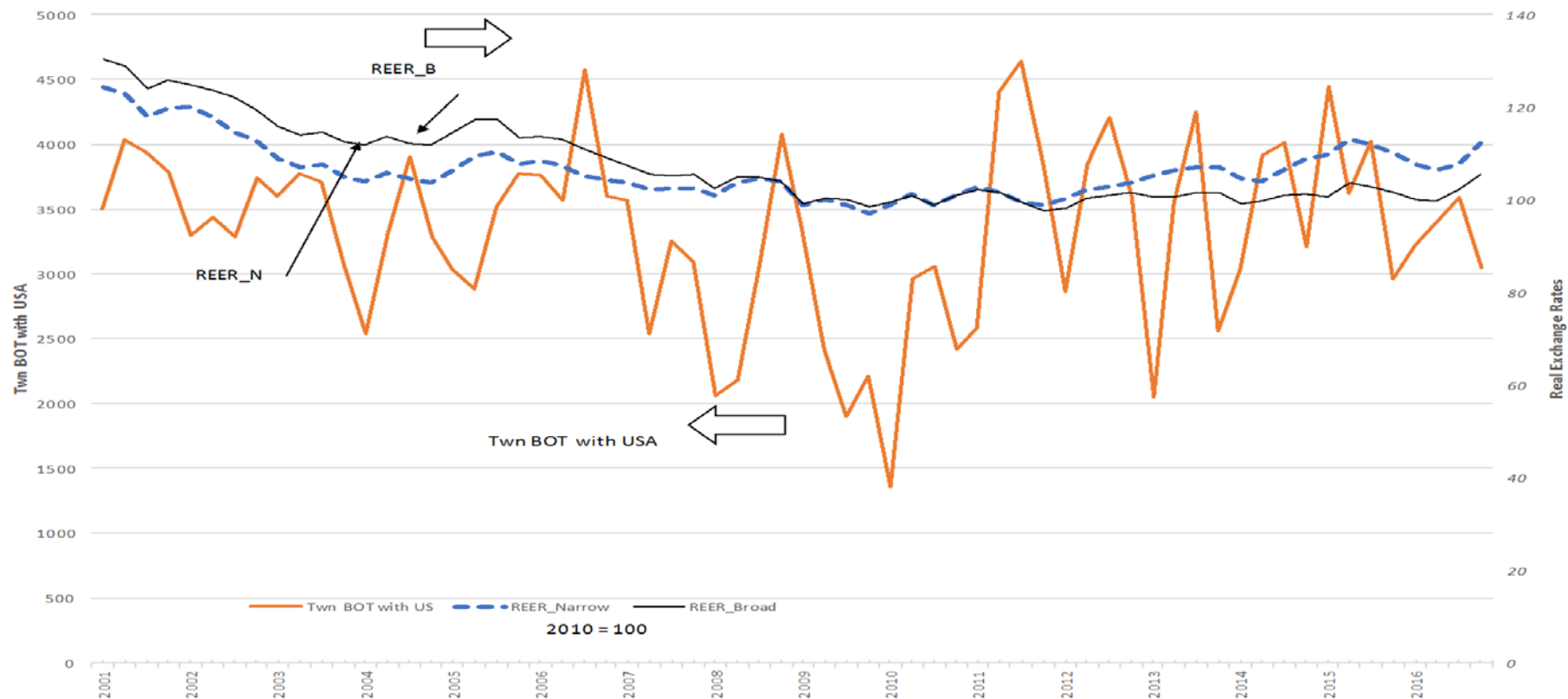
**Data Sources:**

<http://www.trade.gov.tw/>

<https://www.census.gov/foreign-trade/balance/c5830.html>

# Real Effective Exchange Rates and Trade Surplus with the U.S.

Figure 2 Real Exchange Rates and BOT  
Taiwan with the USA 2001-2016



Data Sources:  
<https://www.bis.org/index.htm>  
<https://www.census.gov/foreign-trade/balance/c5830.html>

# Prospect for the U.S. dollar and the likely scenario of trade deficit

- ▶ A combination of higher government spending, lower taxes and overall higher spending in the US and the shift of the monetary policy at the Fed would cause **an appreciation of the U.S. dollar , similar to the Reagan era in 1982-85**. Will there be a Plaza Accord II of currency realignment ?
- ▶ No currency realignment of currency would result in further trade deficits, which would aggravate the sentimentalism of trade protectionism, not an healthy development.
- ▶ But, if there is no recession, a strong economy with low unemployment rate may mitigate the protectionism as well.

### 3. On Trade Policy

**“We will follow two simple rules: Buy American and hire American,” Trump’s inaugural address.**

- ▶ **In “American Recovery and Reinvestment Act, 2009” -the stimulus package under Obama Administration, a waiver could be invoked if Buy American raised the cost of the overall project by more than 25 percent. Not sure whether it applies now?**
- ▶ **Instead of multilateral, Trump prefers will bilateral agreements, although it’s not clear why a dozen bilateral agreements would prove superior to one regional agreement.**
- ▶ **The “spaghetti bowl” or “noodle bowl” argument will come back even if multiple bilateral trade deals are inked.**

# Executive order new performance reviews of U.S. trade and investment agreements and World Trade Organization rules

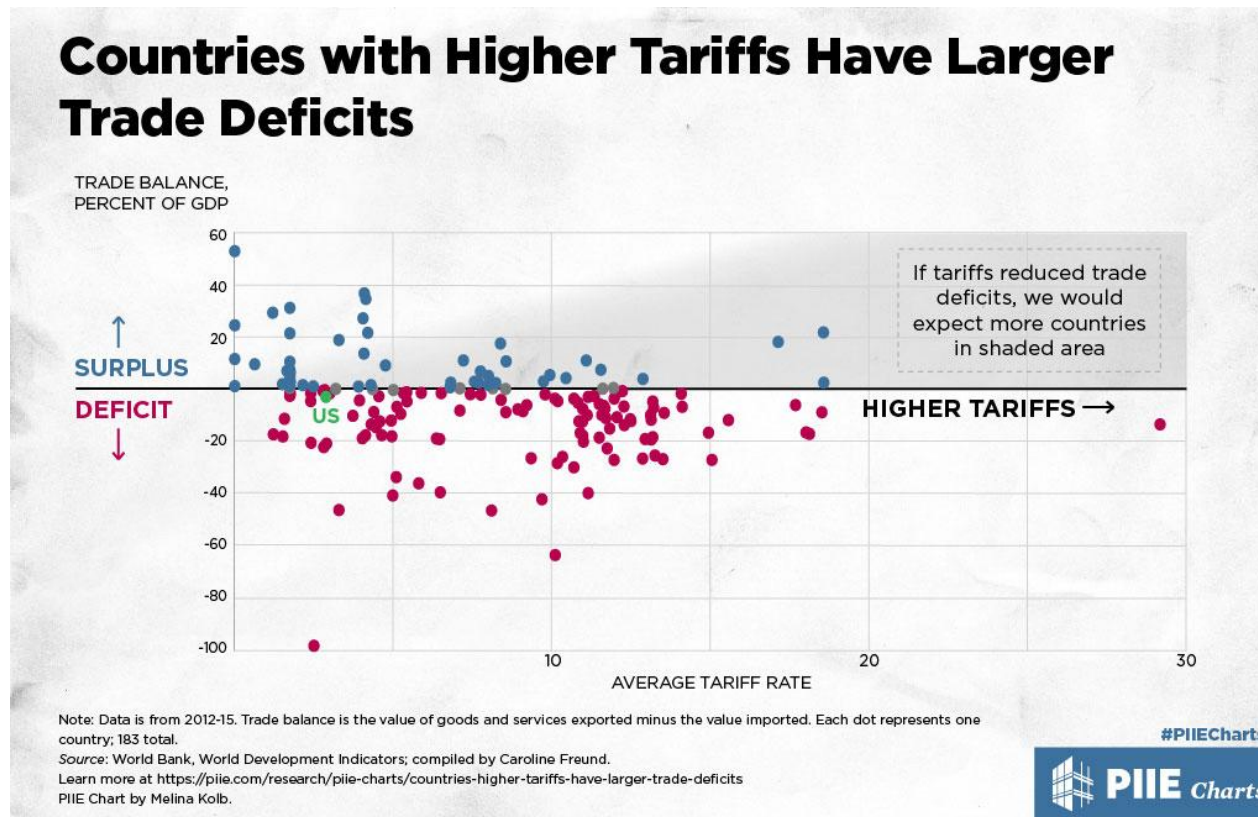
- ▶ Trump issued an executive order directs the Department of Commerce and the Office of the U.S. Trade Representative to conduct comprehensive performance reviews of :
- ▶ (a) all bilateral, plurilateral, and multilateral trade agreements and investment agreements to which the U.S. is a party and
- ▶ (b) all trade relations with countries governed by WTO rules with which the U.S. does not have FTAs but with which it runs significant goods trade deficits.

# Executive order new performance reviews of U.S. trade and investment agreements and World Trade Organization rules

- ▶ The likely conclusion will include
- ▶ (1) violations of trade or investment agreements, WTO rules, or preference programs that are harming U.S. workers, manufacturers, farmers, ranchers, intellectual property rights, innovation, or research and development;
- ▶ (2) unfair treatment by trade and investment partners that is causing such harm; and
- ▶ (3) instances where a trade or investment agreement, WTO rule, or preference program has failed with regard to such factors as predicted new jobs created, favorable trade balance effects, expanded market access, lowered trade barriers, or increased U.S. exports.



# Tariffs and trade deficits



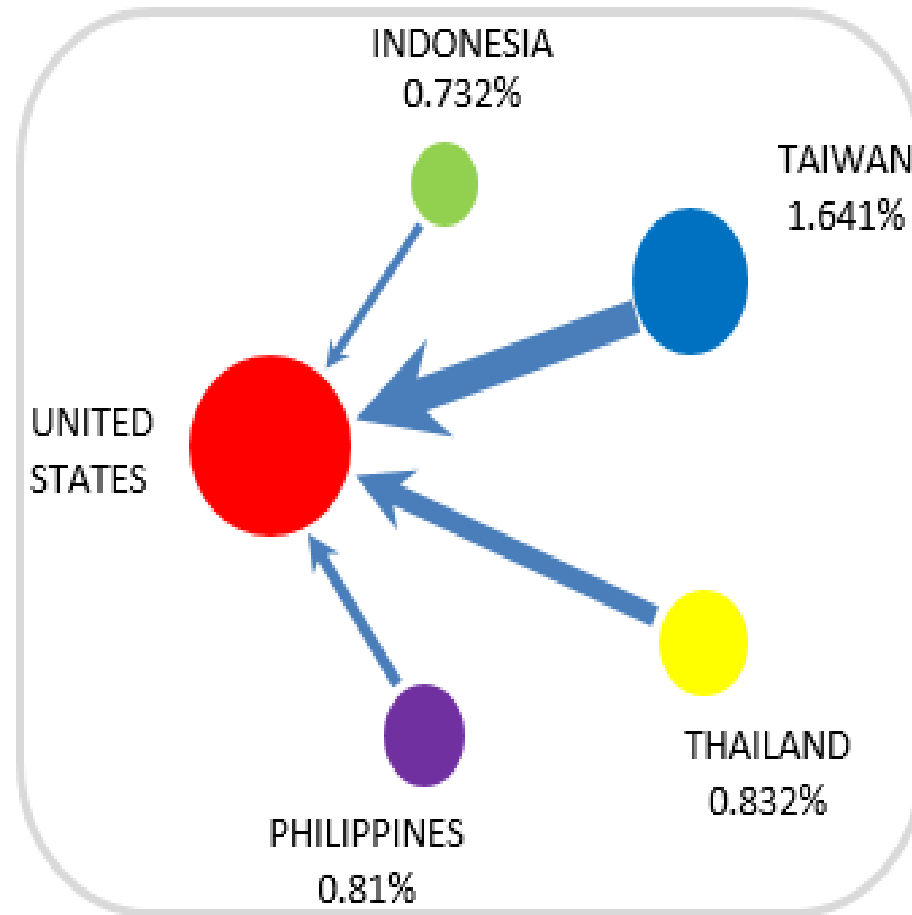
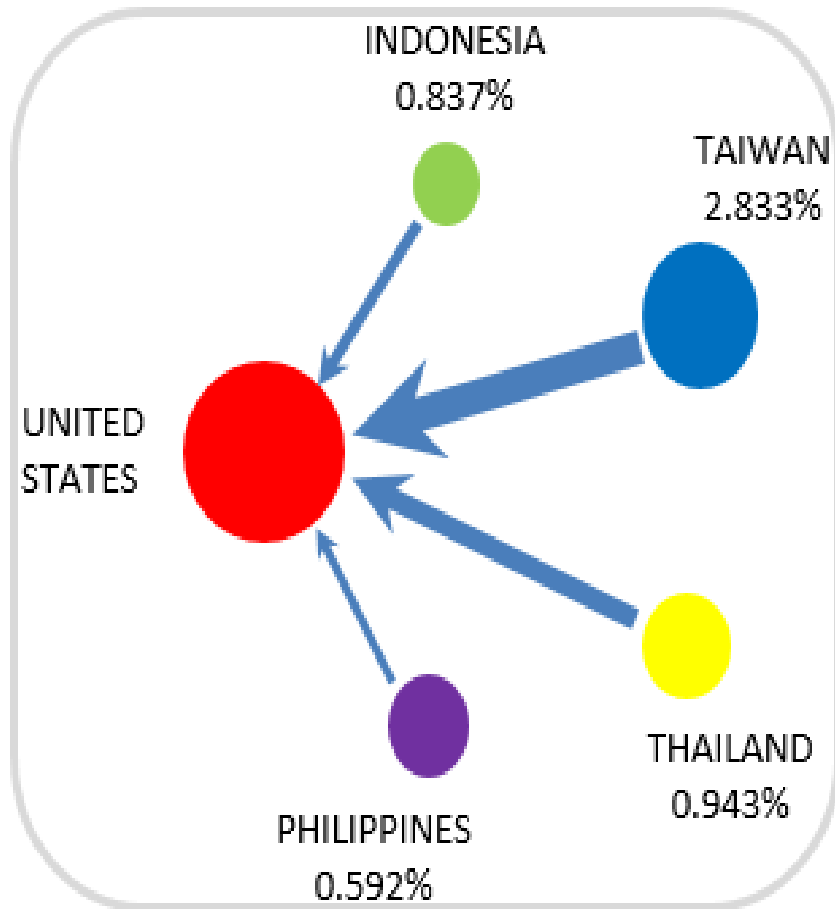
# Which countries to negotiate the trade deal ?

- ▶ At present, the priority list seems likely to be the following:
- ▶ 1. U.S.-China 100-day plan”; a preliminary deal on U.S. export of beef, financial services, natural gas and investment was concluded on April 11.
- ▶ 2.Re-negotiate NAFTA with Canada and Mexico in mid-August at the earliest
- ▶ 3. United Kingdom to bridge the legacy of Brexit, wait until UK signs the exit deal with EU.
- ▶ 4. Japan is more interested in pushing TPP without the U.S. rather than bilateral trade deal
- ▶ 5. Re-negotiate US-KO FTA pending on president Moon’s attitude with the U.S.
- ▶ **When will Taiwan be one of the first Asian countries to negotiate an Economic Partnership Agreement ?**

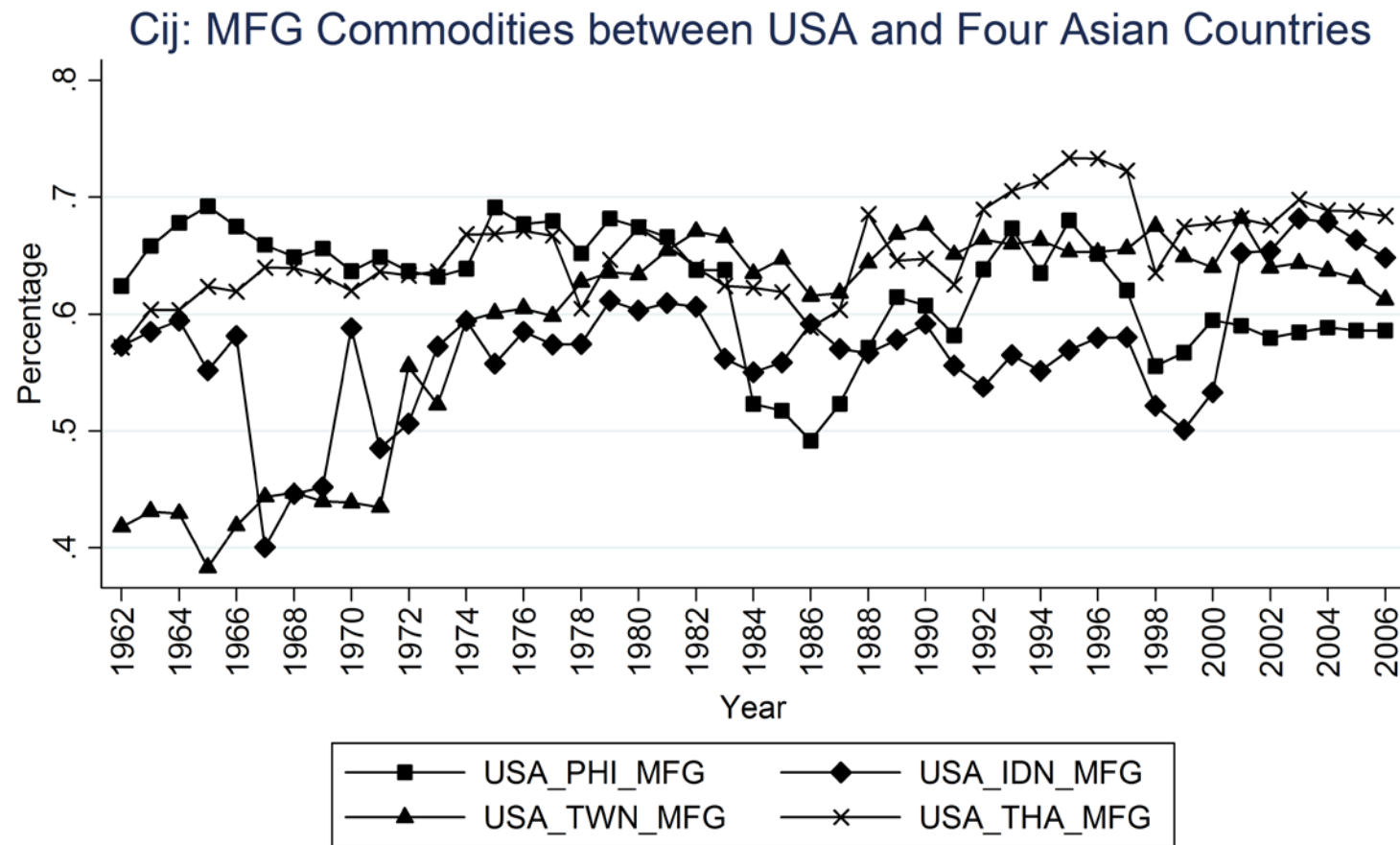
# Why Taiwan Matters to the U.S.?

- ▶ Taiwan needs to convince the Trump Administration why Taiwan matters to the U.S. economy by advocating:
  - ▶ 1. Taiwan in the U.S. global supply chain ( Chow 2016)
  - ▶ 2. Taiwan is the “ natural trading partner” for the U.S. More so than any other trading partners in the Asia Pacific
  - ▶ 3. U.S. has strong “ comparative advantage” in service trade whereas Taiwan needs to upgrade its service industry to avoid falling into the “ mid-country’s trap” ( Tain-Jy Chen, 2012),
  - ▶ 4. CGE model simulations show that free trade between the U.S. and Taiwan will narrow the trade gap and create more labor employment for the U.S. ( Chow, 2016)

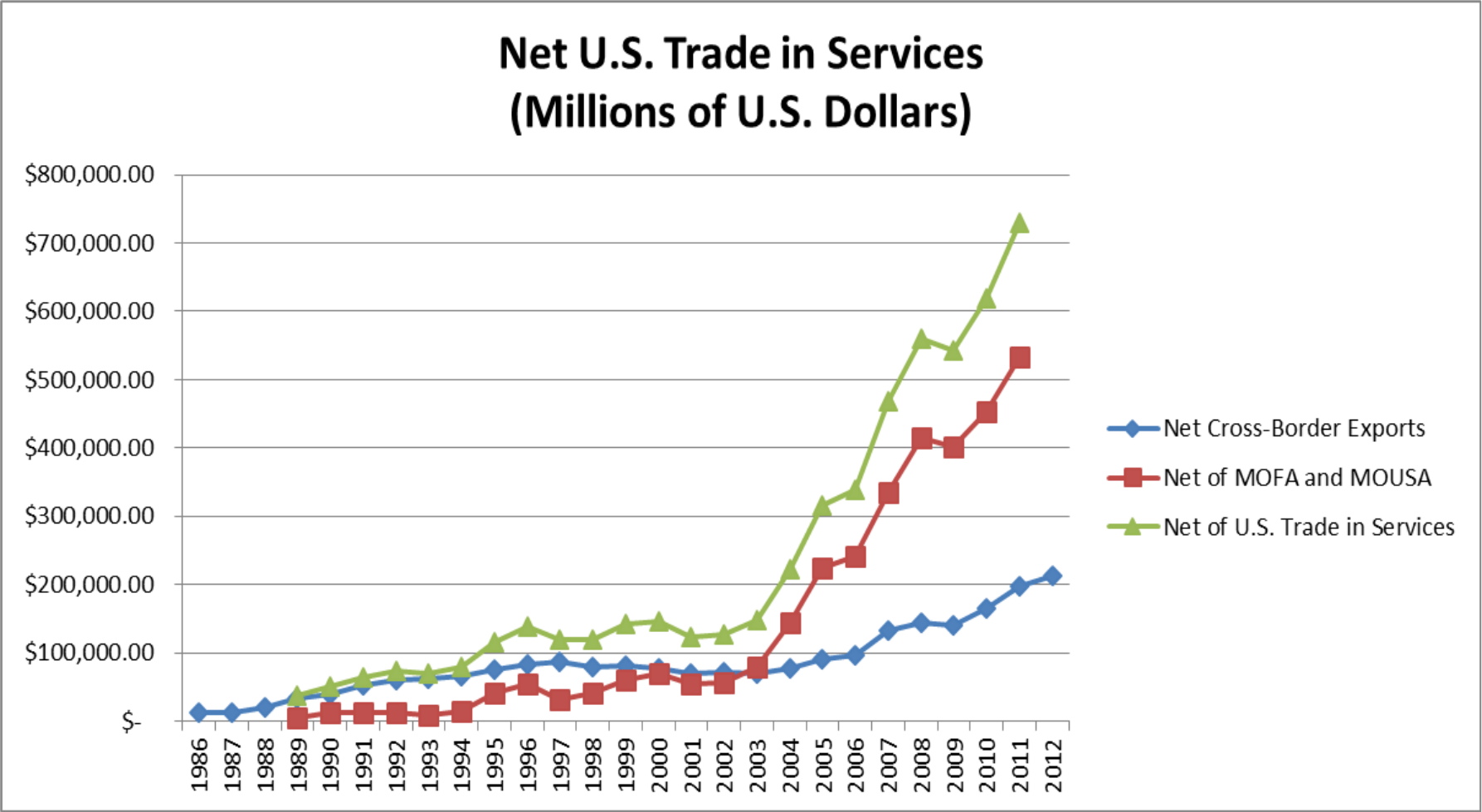
# Taiwan in the US Global Supply Chain



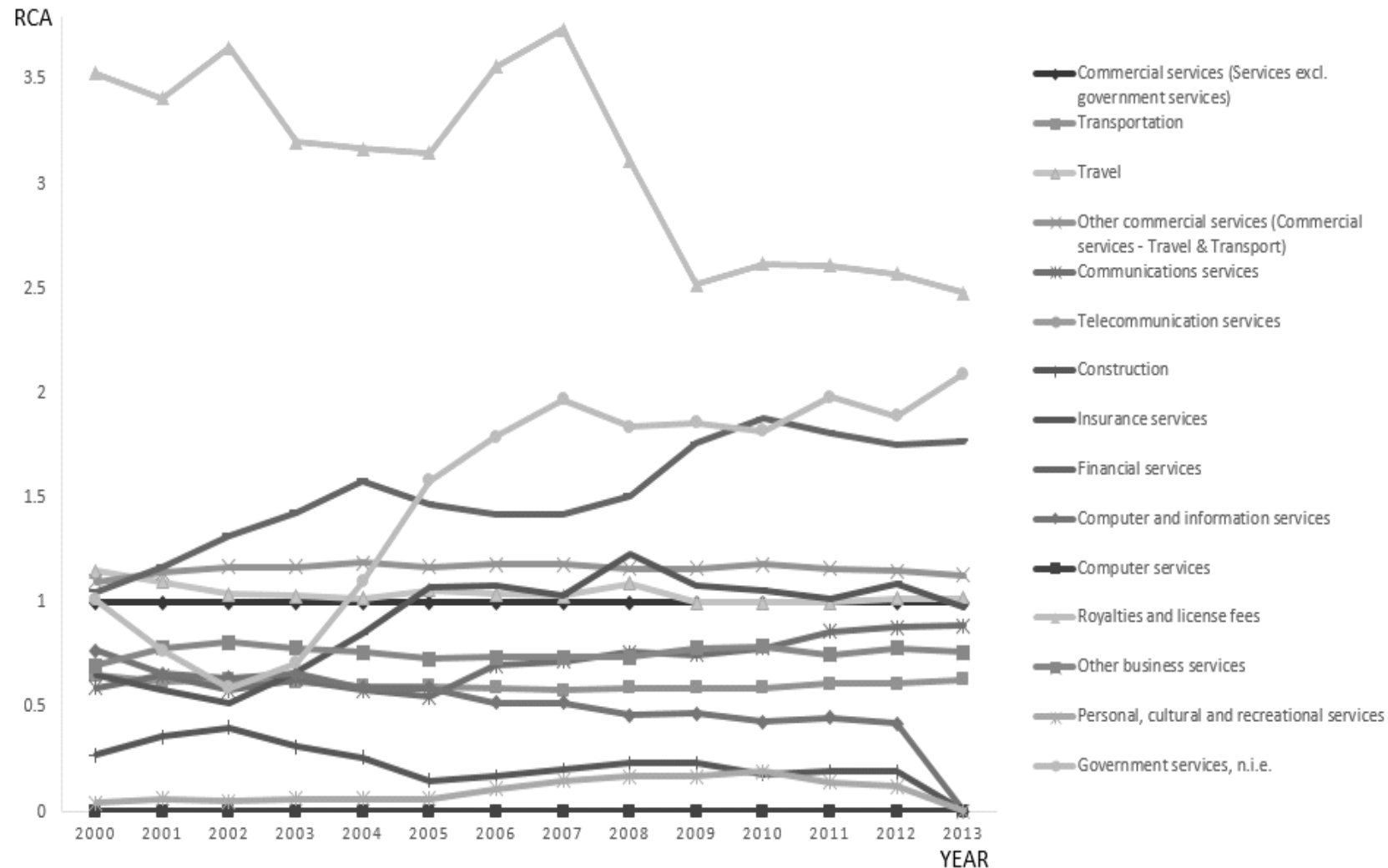
# Trade Complementarity between US and 4 Asian countries



# U.S. Net Trade in Services



# Comparative Advantage of US Service Trade by sectors



## Conclusion : Toward an US-Taiwan Economic Partnership under Trump -Tsai Administrations

- ▶ Like Trump or not, he will be in charge of the White House in the next four even eight years. So, Taiwan need to map a grand strategy to further strengthen the economic and trade relations. An Economic Partnership Agreement should be the target in the near future so an US-Taiwan EPA can be wrapped during the first term of the Trump-Tsai Administrations.