



Policy Brief No. 201704

February 9, 2017

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Trump rhetoric will be difficult to implement ^①

Now that Donald Trump has been sworn in as the 45th US President, many of his rhetorical stances are expected to become policy, among which include his plan to wrestle manufacturing away from Mexico.

Trump's goal toward stopping the manufacturing of US products in Mexico is reflected in three areas: levying high punitive tariffs on imports from Mexico, renegotiating or even withdrawing from the North American Free Trade Agreement (NAFTA), and enforcing administrative intervention on US-based firms that invest and manufacture in Mexico.

Donald Trump has pledged to revitalize US manufacturing and increase employment by taking tough measures against production in Mexico. However, talk is always a far cry from reality. After analyzing the three feasible plans Trump has proposed, it seems it will be rather difficult for him to fulfill his ambition.

First, his plan of imposing punitive tariffs as much as 35 percent is unlikely to be followed through for several reasons. To start with, these hefty tariffs would undermine WTO and NAFTA rules. While Trump could withdraw from the two multilateral frameworks, such a move would jeopardize

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the order and rules of world trade, and the US would lose its global credibility and leadership. Further, it would result in revenge from rest of the world. In addition, while raising taxes on certain Mexican imports could protect some US industries, this move could hurt the interests of upstream and downstream US manufacturers as well as US consumers. And as has been repeatedly proven in practice, international trade and the division of international production based on comparative advantages benefits all participants. Trade protection and anti-globalization would only damage the overall interests of the US, and the new US president doesn't seem to fully grasp the comparative advantages the US has in the current order.

Second, Trump has been vocal about renegotiating NAFTA. Under NAFTA's article 2205, the US could withdraw from the agreement on six months' notice and the deal would remain in force between Canada and Mexico. But demanding a renegotiation or even quitting the trade pact would result in both Mexico and Canada losing faith in the US, which would likely lead to economic confrontations and sanctions. Suspension of deep trade relations among the US, Canada and Mexico would incur substantial losses for all countries. Furthermore, it is difficult to imagine that Trump's claim of creating jobs at home would come true with the scrapping of NAFTA. This move would only force US enterprises to transfer manufacturing to other countries with even lower labor costs.

Third, Trump has opted to use administrative intervention in US enterprises' investment and manufacturing activities in Mexico. For instance, he threatened Toyota and General Motors on Twitter to plant factories in the US or "pay big border tax." It's hard to understand that frequent political pressure or intervention could exert such a big influence on enterprises' decisions in the highly market-based US, as these methods neither support globalization nor are market-based ones. In order to make that intervention happen, Trump is anticipated to offer tax cuts or subsidies to attract manufacturing back to the US, but is it truly a perfect deal to trade a small number of job increases at home in exchange for both cuts in tax revenue and increases in subsidies?

In our opinion, even though Trump cannot guarantee that he will revive US manufacturing, it will



take time for Trump to change his attitude toward manufacturing in Mexico. Mexico's manufacturing industry is expected to be affected in the short term, which has already been reflected in the recent fall in the Mexican peso and the cancellation of a Mexican plant by US car giant Ford, although the company denied that Trump had influenced its decision, according to The Telegraph.

It seems that Donald Trump is overlooking the whole picture and his proposed solutions for the US is just like attending to one thing and losing another. We hope that he will come up with less impractical moves during his presidency.

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