

FROM RULE MAKER TO RULE TAKER

BY MATTHEW P. GOODMAN

Critics of Donald Trump's trade policies are understandably focused on the damage to short-term U.S. economic interests and to the broader global economic order. These costs are real and measurable. But the most lasting impact of President Trump's approach could be to concede to others the role the United States has played since World War II as the leading rule maker in the global economy. Early signs of this shift are appearing around the world, from Brussels to Hanoi to Beijing.

The tally of economic harm from President Trump's tariffs on steel, aluminum, and \$34 billion worth of goods from China (so far) is getting longer and more specific. It ranges from [anecdotes about workers being laid off](#) in U.S. manufacturing plants dependent on imported steel to a new [estimate by the International Monetary Fund \(IMF\)](#) that if President Trump follows through on his pledge to tax another \$200 billion of Chinese imports, this will knock half a percentage point off global growth by 2020. [The Peterson Institute for International Economics \(PIIE\)](#) has [estimated](#) that imposing a 25 percent tariff on imported automobiles and auto parts, as the Trump administration is threatening to do by the end of the summer, will cost nearly 200,000 American jobs—or more than triple that number if other countries retaliate.

President Trump's harsh trade actions and statements have also rocked the global system of institutions and rules that the United States created and championed for 70 years. This may be the President's intent, but it is an approach that will have real costs for U.S. economic and strategic interests. Use of [Section 232](#) of a Cold War-era trade law for the transparently commercial objective of limiting competition from imported steel and automobiles violates the spirit, if not the letter, of World Trade Organization (WTO) rules and gives license to other countries like China to cite "national security" as an excuse for protectionism against U.S. exporters and investors. Meanwhile, antagonizing allies like Canada, the European Union, and Japan has visibly undermined their willingness to join Washington in pursuing shared objectives, such as challenging China's mercantilist policies.

The shift of the United States from global rule maker to rule breaker is likely to end in the country becoming a mere rule taker. Indeed, U.S. allies and other trading partners are moving ahead with economic arrangements that do not include the United States on terms that are likely to harm U.S. interests. The European Union and Japan this month signed a sweeping "economic partnership agreement" (EPA) that will establish new trade rules for an economic area [representing over one-quarter](#) of the global economy. Among other things, Tokyo agreed to provide special protection to [over 200 EU "geographical indications,"](#) regional food and beverage brands like gorgonzola and champagne that Brussels claims deserve special protection. If this becomes the global standard, Illinois-based Kraft Heinz will no longer be able to sell its ubiquitous green containers of "Parmesan" under that name.

Even more potentially damaging to U.S. interests are the provisions in the EU-Japan EPA on digital trade. Because of political sensitivities about personal privacy in Europe, Brussels resisted Tokyo's pressure for a binding agreement on free flows of data. Instead, the two sides agreed to recognize the "adequacy" of each other's privacy regime, enabling transfers of personal information but not enshrining the principle of free data flows as an enforceable commitment. This sent a bad signal to the many countries around the world that want to require data to be stored in local servers and to restrict cross-border flows. Binding commitments not to engage in such data-localization practices, along with an array of other [digital disciplines](#), were a centerpiece of the Trans-Pacific Partnership (TPP), the comprehensive trade agreement negotiated under U.S. and Japanese leadership that President Trump, in one of his first acts, walked away from.



Upcoming Events

- July 30 -31: Bank of Japan Monetary Policy Meetings (Tokyo, Japan)
- July 31 – August 1: Federal Reserve Open Market Committee Meetings (Washington, DC)
- September 11 – 13: 4th Eastern Economic Forum (Vladivostok, Russia)
- September 18: South Korean Connectivity Conference (Seoul, South Korea)

FROM RULE MAKER TO RULE TAKER *(continued)*

Vietnam is a TPP member that has already taken advantage of the U.S. absence from the table to carve out its own unhelpful approach to digital issues. In late June, the country's **National Assembly adopted a cybersecurity law** that, among other things, requires internet companies like Facebook and Google wishing to access Vietnamese users to open offices in the country, store their Vietnamese customers' data on local servers, and remove online content with 24 hours at the government's request. The U.S. Embassy in Hanoi was sufficiently concerned that it **issued a public statement** warning that the new policy could violate Vietnam's international trade commitments—a protest that would carry more weight if the United States were still a member of TPP and not undermining the WTO.

All of this is music to Beijing's ears. As **my CSIS colleague Samm Sacks recently wrote**, China is on a “mission to write the rules for global cyber governance.” Beijing's preferred approach includes not only localization requirements and restrictions on outbound data transfers, but also pushing out Chinese technical standards and Beijing's vision of “cyberspace sovereignty.” As Sacks says, this “crashes headlong in the foundational principles of the internet in market-based democracies: online freedom, privacy, free international markets, and broad international cooperation.”

Beijing's newfound role as global rule maker extends beyond trade to its ambitious plan for Sino-centric connectivity under the Belt and Road Initiative (BRI). In late June, the Supreme People's Court in Beijing enacted provisions to establish **two courts to mediate BRI-related disputes**, one based in the southern city of Shenzhen to handle disputes arising along the maritime “Road,” the

other in Xi'an to handle cases along the overland “Belt.” No doubt a legal mechanism to manage inevitable commercial disputes in BRI projects is necessary, but the fact that Beijing opted to set up its own courts rather than rely on existing international arbitration centers in Hong Kong, London, and New York shows that there is a powerful new rule maker on the global stage.

Some in the Trump administration appear to have woken up to the dangers of letting others write the global economic rules. At White House urging, the U.S. Chamber of Commerce will host an **Indo-Pacific Business Forum** on July 30, at which Secretary of State Mike Pompeo, Secretary of Commerce Wilbur Ross, and other senior administration officials are slated to lay out an economic and commercial vision for that vital region. It will be important for these officials to go beyond platitudes and present a credible trade and investment strategy that replaces the destructive tariff-based approach with one that puts the United States back in its traditional role as global rule maker and norm setter.

Matthew P. Goodman is senior vice president and holds the Simon Chair in Political Economy at CSIS. *Global Economics Monthly* is published by the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions. Accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author. © 2018 by the Center for Strategic and International Studies. All rights reserved.

Simon Says...

Simon is thinking about dropping the policy gig for a life in comedy. Last month Team Simon spent hours educating producers at HBO's “Last Week Tonight” on China's Belt and Road Initiative to help host John Oliver present a **scorching satire** of Xi Jinping's grand vision, complete with excerpts from China's hilarious **BRI propaganda video**. But officials in Beijing weren't laughing, and Oliver was **censored** on Chinese social media.

For an encore performance, Simon is now working on getting exposure on “The Late Show,” whose host Stephen Colbert has recently shown admiration for our work. In a tweet earlier this month, **Colbert posted a photo** of three rows of NATO leaders looking up at a military flyover—all but President Trump looking in one direction, he in the other—with the caption, “My condolences to @realdonaldtrump for his crushing defeat in the first round of international Simon Says.” If only he had listened to us...