The future of world trade

January did not bode well for world trade. In his first week as President, Donald Trump confirmed the US would withdraw from the Trans-Pacific Partnership, repeated his intention to renegotiate the North American Free Trade Agreement and suggested he might finance the construction of a wall along the Mexican border by imposing 20% tariffs on imports from the neighbouring country. On the other side of the North Atlantic, Theresa May made it clear the UK was *en route* to a hard Brexit which would place it outside Europe's single market. Although she openly intends to negotiate free trade treaties with the EU and other countries, this might take years and it is not even sure that, once negotiated, they will foster such a fluid exchange of goods and services as at present.

The stance taken by the US administration will be particularly crucial for the future of world trade. Although «candidate» Trump displayed an overtly protectionist stance during his electoral campaign, «President» Trump was, and its still expected, to take a more pragmatic orientation.

The US is right that, in some countries, its exports of goods and services do not receive similar treatment to that offered by the US for imports from these same countries. This situation is essentially due to the contrast between two approaches to international trade: liberal or mercantilist. For decades now (with few exceptions), the US has embraced a liberal approach that prioritises making imports as easy as possible. The aim has been to benefit companies as they can take advantage of global supply chains while consumers enjoy access to a larger variety of better-priced products. Other countries have opted for a mercantilist approach, protecting some industries from international competition while boosting exports via subsidies or a weak currency.

The Trump administration has two possible ways of evening up the playing field, albeit with very different repercussions: negotiating better access to international markets for US exports or hindering US imports of goods and services by imposing trade barriers; i.e. through tariffs or other measures. It is not clear which option was meant by candidate Trump when he mentioned the possibility of introducing a 35%-45% tariff on Mexican and Chinese imports. It might have been a threat in order to achieve the first option or a proposal in order to achieve the second. In the recent words of leading Mexican businessman, Carlos Slim, whether Trump was speaking as a «negotiator» or as «terminator». For the good of the world economy, and of the US itself, we hope this is a negotiating strategy and the threat is never carried out. Otherwise there would be a serious risk of trade wars and a slump in world trade.

The US could also implement other measures to boost its companies' competitiveness and reduce its trade deficit, which is close to 3% of GDP. For instance, it could reform its corporate tax as this is among the highest in the world (approximately 39% including federal and state taxes), discouraging domestic production and the repatriation of profits by multinationals. In addition, it could implement an infrastructure investment programme to modernise the country's transport and energy supply systems. These two reforms would help to boost not only growth in trade but also economic growth, both in the US and at a global level. It is an encouraging sign that both proposals were included in the President's electoral programme. Let's hope he takes them seriously.

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