UDK 324+342.849.2(73)”2016”Trump D.:338.2(73)
Manuscript received: 18.12.2016.
Accepted for publishing: 27.12.2016.
Original scientific paper

Serbian Political Thought
No. 2/2016,
Year VIII, Vol. 14
pp. 25-42

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The Economic Consequences of Mr. Trump[3]

Abstract

The paper analyzes Trump’s economic program. The overall impression is that this program echoes what has already been tried out during the Reagan era. In its philosophy it is reminiscent of Reagan’s “supply side” economics with its three major features: tax cuts and tax reform, massive deficit financing and finally, protectionism. Copying Reagan’s policies in a radically different environment in which the United States economy operates today is in itself dangerous. Considering that many economists see the Reagan economic legacy as highly flawed makes the perception of Trump’s proposals as even more risky. The belief that old policies can be used in situations that only superficially bear resemblance to past experiences is dangerous and leads to uncertainty and possible dire consequences for the global economy. This is even more accentuated with threats of tariff hikes, the scrapping of TPP and the renegotiation of NAFTA.

Key words: Trump, economic policies, international trade, supply side economics, US dollar

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3 This paper was financed through a grant by Ministry of Education, Science and Technological Development of the Republic of Serbia through project no. 179065.

Introduction

The title of this paper is obviously inspired by the title of Keynes's essay of 1925 (Keynes 1925), in which he criticized Winston Churchill, then the Minister of the Exchequer, for restoring the British pound to the gold standard at the pre-World War I parity. Keynes' forecast that this would make the economy less competitive and lead to unemployment. Keynes himself had borrowed from the title of his own book *The Economic Consequences of the Peace* which made him globally famous and in which he predicted that the extremely high reparations imposed on Germany at Versailles would lead to inflation and the radicalization of politics, proposing instead a set of measures that to a large extent resemble the institutional setup of the EU. He also proposed a soft loan by the US to Europe to jumpstart the economy that bears a striking similarity to the Marshall plan. The point of both of these works was that restoration of economic performance and prosperity would have to be achieved through new economic and institutional approaches rather than reverting to the old. This is in stark contrast to what have emerged as contours of a program on the part of Donald Trump in the course of his campaign that won him the presidency of the United States.

Back to the Future

Populist movements inspired by economic hardships have occurred before in American history. Solutions from the relatively near past were then proposed. The analogy that seems most appropriate in considering the present moment in American history is the populist movement that led to the nomination of William Jennings Bryan for president in 1896. In the period following the 1880's, median income had fallen due to a fall in agricultural prices. The gold standard that had done so much for the boost in trade and foreign investment had also opened the path to the first modern globalization. With the dollar fixed to gold and new agricultural exporting countries like Canada, Argentina and Australia entering the market, the fall in agricultural prices was a result of a boost in supply. The solution was seen in the return to a bimetallic standard with the hope that the use of silver would bring prices up. This did not occur. Prices were restored, but this was due to the expansion of the supply of gold as a result of the discovery and exploitation of new gold mines.

Today, in the United States we are witnessing a new resistance to globalization caused by the stagnation or fall in median incomes in real terms over a prolonged period for those that do not belong to the rich, the loss of jobs in manufacturing sectors and generally a feeling that economic circumstances will not get better in the foreseeable future. Globalization, outsourcing, the rise of Asia and especially China with its extraordinary growth of manufactured exports are seen as the main culprits for the economic predicament of many in the United States. Just as in the days of Bryan, the moneyed classes are seen to be indifferent to the plight of those left behind. The feeling of resentment held by a broad specter of the population, but mostly concentrated among the white-male and white - blue collar have swung the election to Donald Trump who will be inaugurated in January, 2017.

There are many explanations for one of the largest electoral upsets in American history. Almost all of them, however, point to a general mood among the described disenchanted voters rather than to a program or major proposals by the candidates. Now that the election is over, perhaps some attention should be given to what could be reconstructed as Trump's economic program that served only as decorum during the campaign. The major points of the program are presented on the Trump website (Trump 2016).

The overall impression is that this program echoes what has already been tried out in the past. In its philosophy it is reminiscent of Reagan's "supply side" economics. In some of its proposals on huge spending on infrastructure that would create large deficits, it resembles Reagan's military spending driven by his "star wars" project. In this regard there are two fundamental questions that need to be addressed. The first is: how successful were Reagan's economic policies and reforms ("Reaganomics")? The second question boils down to the following: can there be any analogy between the current moment and the Reagan era regardless of the answer to the first question?

An assessment of "Reaganomics" should take into account not only the results, but also, Reagan's campaign proposals and their implementation. A detailed account along these lines certainly surpasses the scope of this paper. Nevertheless, it needs to be noted that economists widely differ in their appraisal of the Reagan years. Some studies (Boskin 1987) have gone into detail but have not come up with a final verdict. From the libertarian perspective, there have been contradictory assessments. The Cato Institute analysis (Niskanen, Moore 1996) paints a favorable picture asserting that the Reagan years showed better performance on eight of ten key economic variables as compared to the years preceding his term in office, as well as the ones following it. On the other hand the Mises Institute (Rothbard 1988) found that Reagan's legacy was flawed and that the results were in stark contrast to the proclaimed goals.

What is certain, however, is that there were three major features of "Reaganomics": tax cuts and tax reform, massive deficit financing of the military buildup and finally, protectionism. These were accompanied by deregulation that was already on its way under Carter, that we will not go into. Let us look at each in turn.

Paul Volcker, Chairman of the Federal Reserve, had consciously produced a recession in order to curb inflation through instruments of tight monetary with soaring interest rates. In such circumstances, after Volcker decided to turn to monetary expansion, deficit spending accompanied by tax-cuts produced a "Keynesian" expansion. With idle capacity this produced a booming comeback. The expansion was demand driven rather than supply driven, although it was dubbed "supply side economics" a term dear to the right wing. What, however, was new is that deficit spending continued in spite of high growth rates. This is something that even the most diehard Keynesians would not do. The central contention of supply side economics – that an across the board cut in taxes would lead to increasing output and consequently tax revenue, thus easing the budget deficit in part, simply did not materialize. Instead there was a sharp rise in government debt. This is the standard mainstream Keynesian interpretation. Needless to say, it has been (and still is) contested by the Republican Party which made Reagan a hero bordering on the "cult of personality". Without denying that Reagan had vast deficit spending that the Republicans voted for in spite of their balanced budget principles, they still hold that the tax cuts provided incentives and created a supply response that was not Keynesian demand driven.

It goes without saying that the tax reform did bring benefits to the more affluent. The top one percent benefited more than any other group from the tax cuts. This was reflected in their post-tax income and was the beginning of growing inequality in the United States after the 1980's (CBO 2016). Corporate taxes and investment income taxes were reduced. In the next three decades the increase of the effective tax rate did fall on the top 1% of the income distribution, but the increase was not even close to the Reagan cuts. Whether the tax cuts under Reagan boosted the economy through "supply side" incentives or did the economy boom through demand driven deficit spending will remain open to debate? What is certain is that income inequality in the United States is now much higher than it was at the time when Reagan took office. The cumulative growth of average inflation-adjusted after-tax income by before-tax income group between 1979 and 2013 shows the income of the top one percent rising by 192 percent and the highest quintile by 70 percent. At the same time, income of the middle three quintiles rose by 46 percent and the lowest quintile by 41 percent (CBO 2016: fig.13). In other words, the Reagan tax cuts came at a time when income distribution was more equal and there was more faith in the effects of "trickle down" economics. Given that one of the perceived reasons for Trump's triumph in the election is disenchantment with the political and economic elite and faith in the unregulated market, it is difficult to see how a vast decrease in taxes of the wealthy will be enacted and sold to the public at large. This can probably only be done through aggressive protectionism as promised by Trump and somewhat implemented by Reagan.

Here, a distinction must be made between protectionism in the 1980's and the protectionism advocated by Trump in the campaign. As tax cuts were implemented the boost in domestic demand also created a sharp increase in imports. This led to a rise in the current account deficits that reached 3.5 % of GDP. The twin deficits (budget and current account) were financed from abroad, mainly Germany and Japan. The United States became a net international debtor with debt rising from $ 440 billion to $ 2 trillion by 1989 (Oatley 2012: 229). The inflow was caused by high US interest rates which in turn led to an appreciation of the dollar. Measured on a trade-weighted basis the dollar had appreciated 50 percent by 1985. This in turn led to higher current account deficits as imports became cheaper. This led to the Plaza accord of 1985 according to which five nations committed to intervene so that the dollar would not appreciate further. Furthermore, threats of a rise in tariffs led to voluntary import restrictions of Japanese cars. This in turn, over time, led to Japanese investment into producing Japanese cars in the United States.

The contours of Trump's economic program were made to resemble the experience of the Reagan years.

The first major characteristic of the Reagan era consists of budget deficits even during economic expansion with public debt rising by 20% of GDP, from $ 2.1 trillion to $ 4.2 trillion by the fourth quarter of 1988.

(FRED 2016). This was certainly inconsistent to say the least, with Republican mainstream view on budget deficits and government debt. If the Republican majority goes along with this type of combination that Trump is proposing, it will be just a repetition of hypocritical behavior (done once again under George W. Bush) and will show how there are no true beliefs underlining the Republican philosophy of government, except for giving tax breaks to the affluent.

The tax cuts proposed by Trump would occur in a totally different setting than in the Reagan years. Not only is the public debt much larger, but the proposed tax cuts would not have the same effects. The tax cuts for the affluent will probably lead to lesser investment than in the 1980's due to the fact that top marginal tax rates are much lower than at the beginning of Reagan's first term. Secondly, cutting tax rates for the wealthy would only exacerbate the level of high inequality that has already reached historical highs. Inequality is certainly much higher than in the 1980's when its new rise began. A further increase in that respect could produce a strong political backlash that may erode the Republican majority. Furthermore, it could lead to the perception that the United States is run by an oligarchy that perpetuates a dysfunctional political system for its own benefit.

Furthermore, the problem is that tax cuts would be implemented at a point in time in which the public debt of the United States is far larger than in the Reagan years, as it stood at 105 % of GDP at the end of 2015. The estimated tax cuts and budget deficits would increase the cumulative debt after macroeconomic feedback by another 12 % of GDP by the end of his first term and by seven trillion dollars after the first ten years if the tax cuts remained intact, leading to a cumulative debt increase of 25% (Nunns et al. 2016). This would surpass the debt to GDP ratio that the United States had after World War II.

All of this, after a period of a boost in growth thanks to tax cuts and tax reforms. Furthermore, once the economy gets overheated through extra public spending on infrastructure, one should expect a rise in inflation towards the end of Trump's first term. Heavy government borrowing to finance the budget deficits and infrastructure projects should lead to higher interest rates and the crowding out of private investment. This had already occurred in the Reagan years leading to the mentioned appreciation of the dollar. The hike in the exchange rate should be expected to lead to higher current account deficits just as it did in the Reagan years.

The problem is that the dollar has already appreciated by 40% since its low in 2011 (Economist, Dec 3, 2016: 9), The appreciation of the dollar had led to increasing problems for governments and private firms which had accumulated dollar debts in a period of low interest rates. This has already led to potential default scenarios and a fall in demand on a global scale just as had occurred in the Reagan years. A further rise in the dollar could create a dangerous situation in this regard. One should be aware that it may be American banks and hedge funds that may be crippled by such a turn of events, since they are the main creditors and have invested heavily in sovereign debt of emerging economies. Finally, a stronger dollar would certainly lead to higher current account deficits which would hit manufacturing jobs in the United States. This will in turn make Trump's stance in regards to free trade more aggressive.

Trump has shown anti-free trade rhetoric and a significant tendency to protectionism. In general, it is possible to identify two main elements of his trade policy: dissatisfaction with existing trade agreements and the dysfunctional trade relationship with China. In contrast to traditional Republicans who embraced free trade as a key part of a broader concept of free-market capitalism, he often stated that NAFTA (North American Free Trade Agreement) and possible ratification and implementation of TPP (Trans-Pacific Partnership) would hurt American manufacturing industry by sending its jobs overseas, increase US trade deficit and reducing its growth. According to his chief economic advisors Peter Navarro[4] and Dan diMicco[5], trade pacts and unfair trade practices (especially since China's entry into WTO in 2001) have been the main causes of the slowdown of the US economy since the beginning of the 2000's. In his first video address after the presidential victory, Trump mentioned trade as the first issue in his plans for the first 100 days in office which emphasized the significance of this particular policy area for his future administration.

Trade – the End of Multilateralism?

The president-elect promised to issue a notification of intent to withdraw from the Trans-Pacific Partnership and to begin the process of reforming NAFTA. The Trans-Pacific Partnership, the 12-nations free

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trade deal between the countries of the Pacific Rim has been the most ambitious regional trade deal in history (covering about 40% of the global economy).[6] On the campaign trails Trump called it "the potential disaster for our country" and sharply criticized Hillary Clinton for her previous support for its creation (Trump 2016).

In a sense, economists have been divided about the estimations of economic effects of this agreement. Some of them (Broadbent, Pinkert et al. 2016; Petri, Plummer 2016) think that the conclusion and implementation of TPP could have a positive impact on the US economy and would generate growth for all. The US Trade Commission report suggests that until 2032, the US annual real income would rise by $57.3 billion (0.23%), real GDP would be $42.7 billion (0.15%) higher and annual exports would be $27.2 billion (1.0%) higher relative to a projection that doesn't include TPP (Broadbent, Pinker et al. 2016: 21). According to more optimistic predictions, until 2030, TPP could lead to an increase of annual real incomes in the United States by $131 billion (0.5% of GDP), and annual exports by $357 billion (9.1%) relative to the baseline (without TPP) predictions (Petri, Plummer 2016: 9-10). On the other hand, some studies claim that TPP could damage US economy and have a negative impact on employment (Capaldo and Izurieta with Sundaram 2016; Baker 2016; Beachy 2015). According to some of these negative predictions, by 2025, TPP would reduce US income by 0.5 percent, increase income inequality and reduce employment by 448.000 (Capaldo, Izurieta with Sundaram 2016: 16-17). Although many pundits have been deeply involved in the debate about the appropriateness of the used models (Lawrence 2016, Rodrik 2016), the credibility of these studies will not be tested in practice, at least for a while, if the promises of the president-elect are fulfilled.

Beside serious economic effects, Trump's decision to unilaterally withdraw from the Trans-Pacific Partnership could have significant strategic consequences (Green, Goodman 2016; Williams, Dolven et al. 2016). One of the TPP's main geopolitical features was to economically isolate and contain China in the environment of growing Asian-Pacific economies by reducing their trade dependence from China and bringing them closer to the United States. The other important goal is America's intention to "write global trade rules" (Obama 2015) in order to preserve a dominant role in shaping the political and economic

6 Signatories of TPP are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore United States, and Vietnam.

order in this region whose norms and standards would be taken into account by all important actors and which China couldn't ignore. Being the largest trading economy and the second global largest economy (by nominal GDP) China expanded its trade and investment portfolio by concluding trade and investment initiatives in the region and by making its own version of a regional economic model. The US abandonment of TPP opens the door for easier implementation of China's economic programs such as the Silk Road Economic Belt and Maritime Silk Road („One Belt, One Road" initiative) and potential conclusion of a mega-regional trade agreement, the Regional Comprehensive Economic Partnership (RCEP).[7] The possible void caused by the collapse of TPP will certainly facilitate China's intention to establish economic leadership in the region.

On the top of Trump's wish list is a renegotiation or "abortion" of the North American Free Trade Agreement or "the worst trade deal in history" as he called it. It hasn't been long since Ronald Reagan in his remarks announcing his candidacy for the Republican presidential nomination in 1979, called for reduction of obstacles for "people's commerce" between countries in the North American region and stated that Americans were capable of "dreaming up fantastic deeds and bringing them off to the surprise of an unbelieving world" (Reagan 1979). Another Republican president, George H. W. Bush signed this agreement in 1992.[8] For more than 20 years of implementation, this arrangement (between Canada, Mexico and United States) substantially eliminated most of the tariffs among its signatories and created a trade boom among them. This wave of trade liberalization included the automobile industry, agriculture, textile products but also intellectual property issues and the potential harmonization of labor and environmental standards. NAFTA has also been a predecessor of a new generation of free trade agreements which are more comprehensive because in addition to standard issues of trade in goods it included basic liberalization of trade in services and the harmonization of regulations of labor and environmental standards.

7 The Regional Comprehensive Economic Agreement is being negotiated between ten ASEAN nations (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and their six FTA partners (Australia, China, India, Japan, New Zealand and South Korea).

8 George H.W. Bush's administration negotiated the deal and President Bush signed it (with his counterparts from Mexico and Canada) in three separate ceremonies on December 17, 1992. After the adoption by the Congress, President Clinton signed NAFTA into law on December 8, 1994.

Also, NAFTA was unique because it connected two wealthy developed countries with one developing, low-income country. In general, it seems that NAFTA has benefited all countries in the region. Regional trade has increased significantly from $290 billion in 1993 to $1.1 trillion in 2016 (Mc Bride, Aly Sergie 2016). The assessments regarding its broader economic effects are diverse. Political controversies that accompanied the initial proposal and the negotiation process more than 20 years ago are still present. Proponents of the agreement stated that NAFTA would have positive effects for economic growth of its signatories, that it would create thousands of new jobs and improve labor and environmental regulations. For example, President Clinton claimed that NAFTA would create about 200 000 jobs in the first two years of its implementation and near 1 million jobs in its first five years (Clinton 1993). On the other hand, the opponents of NAFTA spoke about its giant negative impact on labor markets (especially in the United States) because of rising trade deficits and the potential dislocation of domestic production from the US to the other countries with abundant cheaper labor. Accordingly, less–skilled workers in the US would become the largest casualties of the agreement.

As we can see, more than twenty years after, results are mixed and the debate on the effects of North American Free Trade Agreement is still on. Is seems that both positive and negative estimates have been overstated. According to some critics of NAFTA, there have been significant losses in the US workforce due to increased competition from Mexico's and Canada's exports. Until 2010, about 43.000 US jobs per year have been lost or displaced because of the trade deficit with Mexico, as has been stated by often cited data from the Economic Policy Institute (Scott 2011). This is a much lower number in comparison with the predictions of Ross Perot[9] and Pat Choate (opponents of NAFTA) who projected that job losses in the US due to enforcement of NAFTA would go up to 5.9 million (Huffbauer, Schott 2005: 40). However, NAFTA helped US manufacturing industries, especially the automotive industry to become competitive on the global stage and more profitable, because of development of various cross-border supply chains. An important fragment of the US-Mexico merchandise trade is result of industry specialization and a fact that large number of American factories have moved to Mexico due to lower labor costs and expected gains in

9 During his unsuccessful presidential bid in 1992, Perot made has famous claim about "giant sucking sound" of US jobs and capital flying to Mexico.

achieving economics of scale. Also, the US-Mexico cross-border investment has increased significantly. The stock of US direct investment in Mexico increased from $17 billion in 1994 to $92.8 billion in 2015 (Villarreal 2016). As it seems, Mexico has been the greatest beneficiary of NAFTA but the economic effects on the other parties of the agreement are not negligible. According to a 2014 report by the Peterson Institute for International Economics, the GDP of the United States per year had increased by $127 billion due to trade fostered by NAFTA while Mexico and Canada became wealthier by $170 billion and $50 billion, respectively (Hufbauer, Cimino, and Moran 2014: 23).

The establishment of NAFTA has significantly transformed economic relations in the North American region. It accelerated agricultural exports and job creation (especially in the auto manufacturing industry) in Mexico but didn't contribute to wage convergence among US and Mexican workers, as has been expected (Clemens 2015). Trade between Canada and the US has increased significantly (in agricultural products, in particular) but the productivity gap between these economies hasn't essentially been reduced (Villarreal and Fergusson 2015). The US trade with Mexico and Canada has increased at a higher rate than its trade with the rest of the world what made these countries the most important destinations for American exports (Hufbauer, Cimino, and Moran 2014: 7). Important economic downsides that have been linked with NAFTA, like the widening trade deficit, job losses and wage stagnation in the US remain open issues for a thorough debate with a multitude of conflicting views.[10]

Trump's intention "to renegotiate NAFTA or withdraw from the deal under Article 2205" could have serious consequences for the American economy (Trump 2016a).[11] The other parties of the agreement (Canada and Mexico) would have no obligation to give US products and companies any preferential treatment which would break existing supply chains, increase their costs and potentially jeopardize their businesses in Canadian and Mexican markets. The possible increase of tariffs for American goods could lead to trade wars with negative effects for all

10 For basic positive and negative opinions regarding these issues, for example, see: NY Times, The Opinion Pages: Room for Debate, What We've Learned from NAFTA (NYT 2013)

11 According to memo from Trump's transition team, he plans to form a team for the study of possible renegotiation or withdrawal from the NAFTA. Article 2205 allows withdrawal „six months after it provides written notice of withdrawal to the other Parties" (NAFTA 1993)

parties involved. The opening of new talks requires consent of the other parties to come to the table and renegotiate NAFTA. According to their statements, Mexican leaders do not wish to renegotiate but have expressed a readiness for dialogue while their Canadian counterparts are willing to renegotiate the deal (BBC 2016). It is important to emphasize the fact that potential renegotiation would happen in a completely different economic and political framework in comparison with the 1990's when the US was the only global superpower with higher bargaining power than today.

Next to the rising trade skepticism in the United States, trade specialists mostly agree that is almost impossible to separate potential negative effects of these agreements (NAFTA and TPP) from other factors, like technological improvement, rising global import competition and especially competition from China.

Trump vs. China

The bumpy economic relationship with China has been the other main point that marked Trump's presidential campaign and will probably be one of the most significant issues for the next administration. According to Trump, China has been engaged in unfair trade practices (currency manipulation, unfair subsidies of its exports, disrespect of intellectual property rights, poor environmental and labor standards, etc.) so any American action that would be aimed towards the elimination of existing distortions would be completely justified (Trump 2016b). One of the often mentioned retaliation measures could be the imposition of a 45% tariff on all American imports from China. The other proposed instrument is bringing trade cases against China before the domestic courts and panels of the WTO. The implementation of these measures could lead to the outbreak of a trade war between two countries with many casualties on both sides due to economic interconnections between them. In 2015, China was the largest trading partner in goods of the United States with total trade amounting to $598.1 billion (16% of total US trade). The US goods trade deficit with China was $368 billion and the US services trade surplus was about $30 billion which lead to an overall US deficit in trade between these countries.[12]

12 All data are from Office of the United States Trade Representative and the United States Census Bureau, [online]. Available at: https://ustr.gov/countries-regions/

By appointing Iowa Governor Terry Branstad as US ambassador to China, Trump has been sending positive signals about his intentions regarding future relations between the United States and China.[13] But various recent events like receiving a phone call from the president of Taiwan (the first publicly known communication between two leaders in near 40 years) and the statement about questionable US support for the "One China" policy tend to complicate future bilateral relations.[14]

Trump's most frequent accusation against China concerns currency manipulation through which it makes domestic exports cheaper and potentially harms American companies due to their inability to compete with lower costs of Chinese products. This has been the hot topic of US-China economic relations for more than 20 years. From 1994 until 2005, China kept its currency undervalued and pegged to the American dollar with the intention to maintain its stability. In 2005 China made the Yuan (Renminbi) exchange rate adjustable through a policy of "managed float" which led to a 19% appreciation of the Chinese currency. Economists have been divided about this issue. In his call to "confront the dragon", Trump's economic advisor Peter Navarro stated that "China's manipulation of its currency, the Yuan, is the tap root of everything wrong with the US-China trade relationship" and that China's artificial "peg makes it impossible for the US to ever balance its trade through the normal kind of currency adjustments that are the hallmark of mutually beneficial free and fair trade" (Navarro, Autry 2011: 67; Navarro 2012). On the other hand, the US Treasury Department and some prominent economists claim that China isn't a currency manipulator and due to present economic indicators the free float of the Renminbi would probably result in a "depreciation that would boost China's international competitiveness" (Frankel 2015; US Department of the Treasury 2016). Some of them even state that China is actually manipulating its currency up, not downwards (Worstall 2016).

The story about China's unfair trade practices continues. Trump's claims of unfair advantages for Chinese corporations

china-mongolia-taiwan/peoples-republic-china or https://www.census.gov/foreign-trade/statistics/highlights/top/top1512yr.html [Accessed 10 December 2016].

13 Governor Branstad has been named „an old friend of Chinese people" by China's Foreign Ministry Spokesperson Lu Kang (MFA of PRC 2016).

14 The United States recognized Taiwan as part of China on January 1, 1979. From then United States and Taiwan maintained unofficial relations according to Taiwan Relations Act (TRA) that was signed into law by President Jimmy Carter on April 10, 1979.

over American companies and proposed actions aimed at correcting these alleged distortions could provoke a trade war between these two countries. It seems that in this kind of conflict China could lose more because of the value of its exports to the US in comparison with its imports from America. The top three US export goods to China have been transportation equipment (aircraft parts and equipment, for example), soybeans and cars (US-China Business Council 2016; United States Census Bureau 2016). However, the United States mainly imports consumer electronics (laptops, mobile phones/iPhones, tablets, etc.), machinery and clothing from China. Because of its position of the largest global producer of these products, a unilateral imposition of tariffs on Chinese exports would mostly harm American consumers (it would basically be a tax on consumer goods). Furthermore, a substantial part of American imports are semi-finished products or raw materials that US based multinational companies send to their subsidiaries for the assembly of the final product at lower prices. Therefore, raising tariffs would substantially reduce revenues of American companies. China's economy would also suffer because some of it sectors are dependent of American exports and in time of slower growth, millions of workers could lose their jobs. A possible trade war with China would harm not only their own economies but could cause collateral damage in European economies whose companies assemble their own products in China (Siemens, Bosch, Louis Vuitton, Bayer, L'Oreal, etc.). This kind of development would also harm corporations from Japan, Taiwan, South Korea, and other countries that have their plants in China as part of widespread supply chains.

Trump Card or Dud Cards

In conclusion, it is difficult to foresee what will actually occur as there is ample time for modification of Trump's proposals. It has been mentioned that some of his threats concerning trade may just be a bargaining chip in negotiations with other actors. Furthermore, there are internal constraints on certain policies that are institutional.

Nevertheless, the abandonment of the TPP will certainly lead to geopolitical shifts even if bilateral negations are seen as easier for the advancement of American interests. The scrapping of this deal will certainly lead to the perception that the United States is an unreliable partner. A multilateral agreement has more weight than any series of bilateral agreements. This will redefine the position of China in the Pacific. Combined with the threat of tariffs and retribution for American companies investing overseas will further alienate China and other emerging markets in which American companies were present. The possible shift of outsourcing from China to Mexico would be confronted with unpredictable results of the renegotiation of NAFTA. The losers in all of this are many, but among them not least American firms that have complex supply chains and had spearheaded globalization that benefited both them in terms of profits and American consumers in terms of low prices. A possible outcome is the laying off of employees of these firms which would be a result that directly contradicts the proclaimed goals of these policies.

The coming possible surge of the dollar will not only lead to greater trade and current account deficits, but would in combination with high budget deficits and a growing and probably all-time peak in public debt, provoke a possible erosion of confidence in the dollar as a world currency. The role of the dollar has already been questioned by many, not least of all China which is building a separate payment system.

Finally, the belief that old policies can be used in situations that only superficially bear resemblance to past experiences is dangerous and leads to uncertainty and possible dire consequences for the global economy. Copying Reagan's policies in a radically different environment in which the United States economy operates is in itself dangerous. Considering that many economists see the Reagan economic legacy as highly flawed makes the perception of Trump's proposals as even more risky. If we combine the aforementioned with Trump's erratic style, the impression of almost complete uncertainty is strengthened. This cannot be good for the economy. As Keynes observed in times of uncertainty investment is the first victim. Large scale investment is what the global economy needs and it is difficult to see how the disarray created by the Trump proposals could lead to a positive outcome in this regard. It seems likely that the implementation of Trump's proposals would lead to serious negative consequences for the American economy, the world economy and would undermine the leadership position of the United States in establishing international trade rules and standards.

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