# "America First" Policy & Its Effects on US Business

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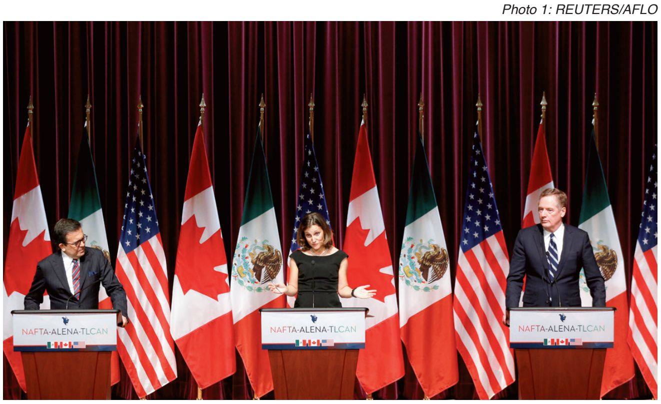
## Introduction

The new US economic policy focuses on strengthening the country's industrial competitiveness and securing domestic jobs. In this light, assuming that the FTAs that previous US governments concluded would have lessened this industrial competitiveness by lenient concessions to their trading partners, the current US government is now engaged in renegotiating existing FTAs such as NAFTA or the Korea-US FTA. They are trying to review and revise these FTAs in order to secure fairness in trade and investment for US industries and workers' benefits.

However, in the public hearing on renegotiation of NAFTA organized by the USTR at the end of June 2017 prior to NAFTA renegotiation, a representative of the Alliance of Automobile Manufacturers (AAM), one of the largest US automobiles industry associations, of which the US big three automakers — GM, Ford and FCA (Fiat Chrysler Automobiles) — are the members, advocated for NAFTA's invaluable contribution to strengthening the US automobile industry's international competitiveness by building up a huge supply chain in the whole of North America. They said that if renegotiation of NAFTA ends up in breaking this supply chain, it would raise the sales price of US automobiles and cause a decline in US automobile exports and eventually lead to job losses in the US economy *(Photo 1)*.

On Oct. 24, 2017, on the occasion of the foundation of "Driving American Jobs" consisting of five major US automobile industry associations to be formed to aim at maintaining NAFTA, Matt Blunt, a former governor of Missouri and current president of the American Automotive Policy Council (AAPC), another US automobile industry association of which the US big three automakers are also members, also made a strongly supportive remark on the role of NAFTA in strengthening US automakers' competitiveness.

*Photo 1: REUTERS/AFLO*




*Canadian Foreign Minister Chrystia Freeland (C) addresses the media with Mexican Economy Minister Ildefonso Guajardo (L) and US Trade Representative Robert Lighthizer at the close of the third round of NAFTA talks involving the US, Mexico and Canada in Ottawa on Sept. 27, 2017.*

They are particularly concerned about the US administration's proposal in the renegotiation to require the other partners in NAFTA — Canada and Mexico — to accept US-made autoparts and components for more than 50% of their automobiles as final goods, as a prerequisite to tariff exemption in trade among the three countries. Their concern is that this new requirement could lead to destruction of the North American supply chain under the existing rules of NAFTA and increasing costs of auto production. Especially, if the renegotiation attempts with this proposal end up in the collapse of NAFTA, they cannot enjoy the benefits of zero tariffs on automobiles in the whole of North America anymore. The loss of competitiveness caused by such a sequence of results would end up in the loss of employment opportunities, which would be bad news not only for the industry but also for labor as well.

On the other hand, the largest US labor union, AFL-CIO (American Federation of Labor & Congress of Industrial Organizations), in the abovementioned public hearing in June 2017, required that the proportion of autoparts and components produced by automakers in the three countries be raised as a prerequisite to zero tariffs on the automobile trade among the three member countries of NAFTA. They said that the benefits of NAFTA must be provided to the workers first, prior to the business. Their request was largely in line with the US administration's proposal.

Is the "America First" policy meant to be an "American workers first" policy and not an "American business first" policy? In this short article, I will try to introduce the gap in views and opinions on "promoting industrial competitiveness policy" between the government and business in the US and elsewhere.

## Trade Policy & Industrial Policy Today

In the "America First" policy, trade policy is viewed as another form of industrial policy to strengthen industrial competitiveness. However, this is not to be considered unique to the United States. With little scope for tariff reductions except in specific industries, many countries are now working to raise their manufacturing competitiveness through infrastructure improvements and skills training while also trying to attract more investment from foreign firms or singling out specific strategic sectors or products for special protection measures, such as content requirements or barriers to foreign M&A still complying with existing WTO rules but in practice putting foreign firms at a competitive disadvantage. Chinese policy to boost the domestic technology sector by imposing increasingly onerous requirements on foreign players in terms of data localization, technology transfers and intrusive monitoring under China's cybersecurity law should be a good example of this.

The US administration's "America First" policy could provide US business with benefits in the short term. The proposal to raise the content requirement in the rules of origin adopted in NAFTA as mentioned above can be understood in terms of such an industrial policy. The labor union certainly prefers such a policy and thus the new policy of trying to keep domestic companies within the US border would be appreciated by the labor union, since it would prevent the US economy's deindustrialization and many job opportunities from flowing out of the country overseas.

## Long-term Business Views on "America First" Policy

The short-term benefits possibly provided by the new US trade policy would be exceeded by the long-term losses to the interests of business and labor even among Americans, according to large US multinational enterprises (MNEs) such as the automobile industry's big three. I think this view is consistent with economics. My view is that the "America First" policy should be reinterpreted as an "America's MNEs First" policy in the long run.

The US government's policy to keep domestic companies inside the country to secure American employment may as well be reexamined in the light of the following. Whereas Japan, South Korea, and ASEAN export intermediary goods to China, and a large part of those goods is used for those countries' subsidiaries or factories there in assembling final goods to be exported to the US and Europe, the US increasingly imports assembled goods from China and exports much less to China than those East Asian nations. In particular, the proportion of their intermediary goods to total exports to China remains low. This means that whereas a horizontal division of labor through FDI is under steady progress between China and East Asian nations, the US MNEs are failing to achieve a horizontal division of labor with China. This is the background, I believe, in which increased imports from China have caused the deterioration of the US manufacturing industry, stirring the current administration's concerns about US industrial competitiveness.

Looking at the trade specialization index (derived by dividing net exports by gross trade), while between Japan and China the index in most of the industries is close to zero, meaning a perfect horizontal division of labor achieved, between the US and China the index in most of the industries is closer to minus one, meaning the US only imports from China. To increase exports to China, the US manufacturing industries would need to set up many more factories and subsidiaries in China and achieve a horizontal division of labor between the US and China. This is how the US economy can integrate Chinese industrial dynamism into its growth and secure US employment. The East Asian countries that succeeded in this division of labor are all successful in securing employment.

In addition, geopolitically the enhanced presence of the US in Asia by an "America's MNEs First" policy would prevent China from dominating this region, and thus would protect the US national interest.

Another argument that the cost to US business in the long run would exceed the short-term benefits of the "America First" policy is the following.

Business firms today are facing the Fourth Industrial Revolution, a large scale ICT revolution. This innovation has made it possible for a manufacturing company to divide a whole production process into many specific operations such as new product development, producing components, assembling, sales, after-sales services, etc. This is called unbundling of the production process. The majority of firms today are competing in pursuing better after-sales services or better new product development, since these are the keys to their prosperity. Assembling processes would not have high value-added anymore. These are today largely transferred to developing nations to take advantage of cheap labor costs.

ICT connects these diversified production processes among nations and thus the free flow of products, money and information is encouraging further innovation in these processes. The free flow of FDI is now indispensable for ICT innovation. Without it, business can neither win the competition in the unbundling production process nor promote innovation.

In addition, the increasing weight of after-sales services in business competition would mean an increase in the service economy in the manufacturing sector. In our economy today, services will increase their share in the economy and also by their labor-intensive nature will contribute to more job creation. This will make capitalism more sustainable. I think this would be good to know on the side of workers.

Therefore, it would be important to promote a free investment regime internationally. Not only business competitiveness but also more public policy goals such as innovation or enhancing a service-economy bearing more welfare and job creation that could modify income inequality, are dependent upon whether you can achieve free investment.

Politicians recognizing a need to promote a nation's industrial competitiveness would need to understand this. They might say that they would not care about the possible long-term benefits of free trade and investment but always care about the short-term prospects

Photo 2: AFP=JIJI

*Then French President Francois Hollande gestures while posing with world leaders for a photo during the opening day of the World Climate Change Conference 2015 (COP21) at Le Bourget, near Paris, on Nov. 30, 2015.*

Photo 3: ©2013, International Chamber of Commerce

*International Chamber of Commerce global headquarters*

of trade and investment policy. However, I think now even in the short-term perspective, in the light of what is achieved by ICT, that free trade and investment policy could be more beneficial for business and labor in a certain domestic economy. The ICT revolution under progress is even reducing the gap between the short-term and long-term consequences of a trade and industrial policy mix.

## Environment Policy — a Gap in Views Between US Business & Government

Trade is not the only domain where you see an increasingly widening gap of opinions between US business and the administration. President Donald Trump declared the US withdrawal from the Paris Agreement on global climate change in June 2017. This international agreement concluded at COP 21 in 2015 was an important step towards global climate change mitigation in the sense that all the participating nations agreed upon observing their fixed CO2 emission reduction goal towards 2025 *(Photo 2)*. Thus all the member nations have an obligation to reduce their CO2 emissions on their own. The US government has decided to withdraw from this agreement in the belief that such an obligation would be a serious impediment to US industrial competitiveness and thus remaining as a member of the agreement would be contradictory to its hardcore "America First" policy.

The withdrawal of the US, the second-largest CO2 emitter after China, would have a significant hampering impact upon international efforts for reduction of CO2 emissions. Though its withdrawal must be implemented in accordance with the rules defined by the Paris Agreement, as the US had already ratified it, thus meaning that the US cannot officially withdraw until Nov. 4, 2020, four years after the date of its being put into effect, its suspension of its financial payment obligation to the UNFCC (United Nations Framework Convention on Climate Change) due to withdrawal would have a considerable impact upon UN activity in this area.

However, some large US companies did not agree with this government's decision, but instead want the US to stay in the Paris Agreement even after Nov. 4, 2020, and by coincidence the date corresponds to the following day of the next US presidential election. Tesla Motors, GE, Google, Apple, Exxon Mobil and a few others announced their support for remaining in the Paris Agreement. The background behind these big US firms' support is a significant decline in the cost of renewable energy sources due to technological development and massive utilization of those energy sources, and thus rapid progress of structural changes in energy sources and de-carbonization of the global economy are in progress. The world market for renewable energy sources is expanding due to this trend of de-carbonization and will be further encouraged by the Paris Agreement. This growing market is crucial to large US enterprises like GE, one of the leading companies in wind power generation, or Tesla, leading the development of electric cars.

In addition, against this background, investors in business would invest their money more actively in companies that are resilient to meet the needs of a de-carbonized society than otherwise.

The recent incredible bad weather, such as "Hurricane Katrina", an extremely destructive cyclone that caused massive damage in the southeast part of the US in 2005, has also increased business people's concerns about climate change. In reality, Wal-Mart Stores lost more than $500 million in sales due to "Hurricane Katrina".

## Conclusion

What is the role of the best corporate leaders under the abovementioned situations where the gap in views and opinions on key policies between business and the administration is widening?

Their first priority is certainly to earn money and what the current US government is pursuing is not necessarily a business friendly policy, though it calls itself a "business friendly" government. In the long run in particular, the policy could seriously hamper US industrial competitiveness.

It is said that in the postwar period, in the 1950s, 60s and into the 70s, the best US corporate leaders used to play a key role in exporting the essence of capitalism as well as the essence of liberal democracy and inclusiveness. US business leaders, however, over the past decades, in particular since the 2008 financial crisis, have moved away from this role, only absorbed in keeping their share prices as high as possible. It is now time for them to remember the role that they played in the postwar period at least in the economic policy agenda, if not as much as in the political and social agendas.

The International Chamber of Commerce (ICC) was founded in October 1919 following the end of World War I, in Atlantic City with 4,000 far-sighted business leaders participating from the US, the United Kingdom, France, Italy, Belgium, etc *(Photo 3)*. Its original aim was to restore the European economy and industries severely damaged by the war and achieve liberalized international trade, the essence of capitalism. Since then, the ICC, based in Paris, has been working as a promoter of economic co-operation among private business all over the world. Business in the world today not only business in the US should inherit the spirit and determination of those founders of the ICC to lead the global economy into long-term prosperity. JS

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