215 Pennsylvania Avenue, SE • Washington, D.C. 20003 • 202/546-4996 • www.citizen.org

For Immediate Release: Contact: Ufuoma Otu (202) 454-5108, uotu@citizen.org
Jan. 29, 2018 Matthew Groch (202) 454-5111, mgroch@citizen.org

PRE-SOTU PRESS MEMORANDUM

In His First SOTU, How Will Trump Bridge the Chasm Between the Populist Trade Pledges That Powered Him Into Office and His Actions as President?

Will Big Announcements on China or NAFTA Be Used to Shift Focus From Increased NAFTA and China Trade Deficits, Ongoing Job Outsourcing, Flip-Flops on China Trade?

President Donald Trump won key swing states and thus the election in no small part thanks to his unrelenting populist trade pledges to stop American job outsourcing and bring jobs back with a fast North American Free Trade Agreement (NAFTA) renegotiation and Day-One action to reverse the huge China trade deficit. Throughout his first year in office, he has relied on fiery trade rhetoric to change the topic from news he'd rather avoid. Now with record-low approval ratings and a tax bill that could not more thoroughly shatter the pro-working-American populist image he rode into the While House, not surprisingly, Trump is expected to spotlight trade in his first State of the Union speech.

But what will he say? There is a wide gap between Trump's trade-transformation and end-to-outsourcing campaign promises and actual deliverables. Perhaps the speech will employ Trump's familiar change-the-topic technique – either with dramatic real news about imminent China trade actions or with controversial rhetoric. There's quite a gap to bridge. In Trump's first year:

- Job outsourcing continued with hundreds of the very Carrier workers Trump pledged to protect seeing their jobs shipped to Mexico along with 300 jobs across Indianapolis at Rexnord and another 600 at Nabisco in Chicago. Three hundred Milwaukee GE workers saw their jobs shipped to Canada this fall, while Microsoft is outsourcing jobs to China and Lowe's to India. To date, more than 950,000 specific American workers have been certified by the U.S. Department of Labor under just one narrow government program as having lost their jobs to NAFTA, with NAFTA helping corporations outsource more middle-class jobs to Mexico every week.

- The recent tax bill is projected to incentivize corporations to outsource even more U.S. jobs by offering lower tax rates to firms operating offshore while failing to eliminate longstanding pro-outsourcing loopholes.

- The NAFTA and China trade deficits are up in Trump's first year in office. Already the 11-month 2017 NAFTA and China goods trade deficits are larger than the full-year 2016 deficits of $350 billion with China and $173 billion with the NAFTA countries. The U.S. trade deficit with Canada and Mexico was 7.9 percent higher, and with China was 5.1 percent higher during the first 11 months of the Trump administration compared to the same period in 2016. (The full 2017 annual data will be released on Feb. 5.) The 2017 11-month China deficit was $352 billion, Mexico was $116 billion, and Canada was $59 billion, compared with $335 billion, $110 billion and $52 billion, respectively, at the 11-month mark in 2016. The NAFTA deficit grew in Trump's first year after progressively declining from 2011 to 2016, while the China deficit continued its steady climb.

- No action was taken to slow the flood of imports from China or boost U.S. exports there in 2017. There are various outstanding Section 301, Section 232 steel and aluminum, and other China trade case decisions, and recent Section 201 decisions on solar panels and washing machines. But a comprehensive new China trade policy *and more* is needed to deliver Trump's promised reversal of the deficit, stop job outsourcing and bring up American wages – not only stopgap measures to counter damage to specific industries. Indeed, beyond formally burying the Trans-Pacific Partnership (TPP) – a pact widely acknowledged as already dead for a lack of majority congressional support – Trump has accomplished little on the Asia trade front beyond starting Korea Free Trade Agreement (FTA) renegotiation talks. Alarmingly, Trump's 2017 China state visit featured Goldman Sachs announcing a $5 billion joint investment fund with the Chinese government's main investment arm, China Investment Corporation, to acquire more U.S. assets and Commerce Secretary Ross touting an array of other pledges by Chinese state-owned and state-linked companies to acquire additional assets in sensitive American sectors including infrastructure, energy and food. These investments may satisfy the Chinese government's *China 2025* strategy, but they stand in stark contrast to Trump's promised "tough on China" approach.

The ongoing NAFTA renegotiation talks provide an opportunity for Trump to deliver on one high-profile trade promise. But after last week's sixth round of negotiations in Montreal, the outcome remains unclear.

Can Trump get a NAFTA replacement deal that delivers on his promises?

In October, the United States proposed vital NAFTA changes long demanded by unions, consumer groups and many in Congress to remove NAFTA job outsourcing incentives and raise wages. These include cutting NAFTA's investor outsourcing protections, corporate investor-state dispute settlement (ISDS) tribunals and Buy American waivers, and adding stronger rules of origin and a sunset clause. These terms are necessary to deliver on Trump's campaign pledges and to secure broad congressional support. But the corporate lobby is doing all it can to hinder these changes. For months, Canadian and Mexican negotiators refused to engage on these proposals. Trump's escalating threats of NAFTA withdrawal have subsided for the moment as Canada and Mexico have started to engage, but absent agreement on these issues, the pact's fate remains uncertain.

Meanwhile, corporate demands to add terms that undermine key consumer protections on medicines, big banks, consumer privacy and food safety appear to be progressing. And, the Trump administration has not yet proposed adding the tough labor and environmental standards needed to stop companies from moving U.S. jobs to Mexico to pay workers poverty wages and dump toxins and then import those products back for sale here. Almost every Democratic member of the U.S. House of Representatives signed a letter sent last week urging addition of strong labor terms with swift and certain enforcement that raise wages so as to obtain a deal they can support.

When deals like NAFTA outsource middle-class jobs, more Americans are forced into temporary and other low-paying service jobs. The trade-related decline in incomes from trade deals like NAFTA is bigger than any savings consumers get from cheaper imported goods. The Center for Economic and

Policy Research discovered that in recent years, the lower prices of cheaper imported goods have been outweighed by the income lost from low-wage competition under current trade policy for the vast majority of U.S. workers. U.S. workers without college degrees (58 percent of the workforce) have likely lost an amount equal to 12.2 percent of their wages under NAFTA-style trade even after accounting for the benefits of cheaper goods. That means a net loss of more than $3,300 per year for a worker earning the median annual wage of $27,500.

American workers are not the only ones getting a pay cut from NAFTA. Mexican wages have dropped from pre-NAFTA levels and are now lower than coastal China, contrary to the promises made by NAFTA supporters that the pact would raise Mexicans living standards. Even worse, those making the least have been hurt the most, with the real minimum wage declining 19.4 percent. Mexico's already low wages are down, and U.S. wages are flat, while the price of everything has risen. Unless we rewrite NAFTA, it will keep giving the green light to corporations to outsource American jobs, pushing down wages for everyone in the United States.

Lack of Action and Larger China Trade Deficit in Trump's First Year

After flip-flopping on the pledge to name China a currency manipulator in his first day in office, Trump failed to slow Chinese imports or expand U.S. exports in his first year. But the administration's Goldman Sachs wing also managed to sideline a decision many expected: the formal end of talks to establish a U.S.-China Bilateral Investment Treaty (BIT). The Obama administration nearly completed this deal, which China is keen to sign. It would give Chinese firms broader rights to purchase U.S. firms, land and other assets and newly expose the U.S. government to demands for compensation from Chinese firms empowered to attack U.S. policies in extra-judicial ISDS tribunals. Former Goldman Sachs executive-turned National Economic Council chief Gary Cohn reportedly shut down plans to terminate the China BIT negotiations in 2017.

Given that the administration is demanding a major rollback of the ISDS provisions in NAFTA, it is notable that Trump did not shut down the China BIT, which provides special protections to firms that outsource to China and simultaneously would greatly expand U.S. ISDS liability. Because only a small portion of foreign investment in the United States is now covered by ISDS agreements, to date, the United States has avoided paying corporations over ISDS claims. But with China firms, including the many government-controlled firms and sovereign wealth fund entities whose promised U.S. investments were touted on Trump's China state visit, continuing to invest aggressively throughout the United States, a BIT with China would greatly increase U.S. liability.

According to Public Citizen's new database on the footprint of Chinese investment here, total investment reached more than $45 billion in 2016, including more than 40 acquisitions of American assets worth at least $50 million each, a high-water mark for inbound investment. Buyers include large Chinese conglomerates with ties to the government like Dalian Wanda as well as state-owned enterprises like the Chinese sovereign wealth fund, China Investment Corporation. Chinese investors have entered U.S. sectors similar to those in which foreign investors have launched the most egregious ISDS cases worldwide such as energy and pharmaceuticals. These 2016 deals include Chinese purchases of more than 100 oil wells in Texas and a pharmaceutical distribution center in Kentucky.

Read about other issues on Public Citizen's radar that Trump likely will discuss in his State of the Union address.

###