

GREAT DECISIONS

Winter 2017 Update

**Trade, jobs and politics • Conflict in the South China Sea
• Saudi Arabia in transition • Latin America's political pendulum • Nuclear security**

Trade, jobs and politics

Donald Trump placed trade and manufacturing at the center of his presidential campaign, promising constituents that he would renegotiate the North American Free Trade Agreement (NAFTA), withdraw from the Trans-Pacific Partnership (TPP) and label China a currency manipulator.

In the earliest days of his presidency, he sent clear signals of commitment to this “America First” doctrine and to a seismic shift toward bilateral trade. He met with business, union and automobile industry leaders. On his first full working day, he issued an executive order withdrawing the U.S. from TPP.

TPP was negotiated by former President Barack Obama, but never submitted for approval by Congress. It was largely perceived as dead in the water even before the arrival of the new administration. But proponents of the trade deal—which consisted of 12 Pacific Rim nations, excluding China—saw it as a means to curb Beijing’s influence in the Asia-Pacific. China for its part is pushing the Regional Comprehensive Economic Partnership (RCEP)—launched by the Association of Southeast Asian Nations (ASEAN) in 2012, and which excludes the U.S.—and has proposed a Free Trade Area of the Asia Pacific (FTAAP).

Days before Trump withdrew from TPP, Chinese President Xi Jinping delivered an address at the World Economic Forum, in which he emphasized Beijing’s commitment to economic globalization. “Pursuing protectionism is just like locking oneself in a dark room,” he said. In an apparent reference to President Trump’s repeated threats to impose punitive tariffs on Chinese imports, he continued, “No one will emerge as a winner in a trade war.” Government-affiliated Chinese trade

experts have suggested that any barriers imposed by the U.S. on Chinese goods would be met with retaliatory measures such as moving food import contracts to other countries or switching aircraft contracts from Boeing to Airbus.

The new administration’s trade policy will take fuller shape under the guidance of an economic team that is highly critical of Chinese trade practices: economist Peter Navarro, at the helm of the new White House National Trade Council; Wilbur Ross, a veteran of Wall Street, nominated to serve as U.S. commerce secretary; and trade representative nominee Robert Lighthizer, who served in the Reagan administration and as a steel industry trade lawyer.

Similarly high on the president’s agenda is the renegotiation of NAFTA. President Trump had planned to meet early in his term with Canadian Prime Minister Justin Trudeau and Mexican President Enrique Peña Nieto to discuss the deal. But the Mexican president canceled his trip to the White House following a very public dispute over President Trump’s executive action ordering the construction of a wall along the U.S.’ Southern border, which Trump says Mexico will pay for. Press Secretary Sean Spicer asserted that a 20% border tax on Mexican imports would fund the wall—a statement that he later walked back. The suggestion came after a speech by President Trump to Republican lawmakers in Philadelphia, in which he called for changes in the tax code to reduce trade deficits.

President Trump greeted his first foreign guest at the White House on January 27. In a short press conference, British Prime Minister Theresa May and President Trump announced that they would

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begin negotiating a pact that would set the stage for a post-Brexit trade deal. The agreement would represent the type of bilateral deal that Trump advocates as America's way forward.

Recommended Readings

Alexia Fernández Campbell, "Is NAFTA Over?" *The Atlantic* (Jan. 26, 2017).

Jason Scott and David Roman, "China Set to Push Asia Trade Deal Harder After Trump Win," *Bloomberg* (Nov. 15, 2016).

Nelson D. Schwartz and Alan Rappeport, "Call to Create Jobs, or Else, Tests Trump's Sway," *The New York Times* (Jan. 23, 2017).

Conflict in the South China Sea

Beijing has placed weapons on its artificial islands in the South China Sea for the first time, as confirmed in a Chinese Defense Ministry statement and by satellite images made public by the Asia Maritime Transparency Initiative in December. In a report about the images, the Initiative said that the action shows China is "serious about defense of its artificial islands in case of an armed contingency in the South China Sea."

That same month, China seized and subsequently returned a United States Navy drone that had been conducting operations in the sea. China also deployed its sole aircraft carrier, the *Liaoning*, in naval training exercises. The deployment set off alarm bells in Taiwan and Japan, who said warships were seen patrolling off their coasts.

Many analysts saw the presence of the *Liaoning* as a response to Donald Trump's consistent anti-China rhetoric. Tensions rose following the election, when Trump accepted a congratulatory phone call from Taiwanese President Tsai Ing-wen. The call was unorthodox, seeming to undermine Beijing's non-negotiable One China principle, which considers China and Taiwan to be inseparable parts of a single "China."

In his January confirmation hearing for secretary of state, Rex Tillerson directly compared Chinese actions in the South China Sea to Russia's annexation of Crimea. He further suggested that the U.S. should block Chinese access to its newly constructed islands. Chinese state media responded forcefully, cautioning that any such action would lead to "devastating confrontation"; official responses were more restrained. In a report to the government in November, Chinese academics said they expected continuity of U.S. policy

in terms of regional alliances and commitment to protecting freedom of navigation. But escalating rhetoric, including statements by Press Secretary Sean Spicer, is cause for concern in Beijing.

Donald Trump's promise (now-fulfilled) to withdraw the U.S. from the Trans-Pacific Partnership (TPP) may have provided incentive for Vietnam to officially engage with China in January. A high profile delegation from Hanoi visited Beijing to speak with President Xi Jinping. A resulting statement indicated that both sides would attempt peaceful settlement of claims in the South China Sea. Friendly feelings were undermined by Japanese Prime Minister Shinzo Abe's visit to Vietnam just days later—part of a series of trips to neighboring countries seen as a play to strengthen ties against Beijing's increasingly aggressive maritime actions.

Philippine President Rodrigo Duterte has been moving to ease tensions with China, even as U.S.-Philippines relations entered increasingly shaky territory during the Obama administration. In January, Philippine military chiefs said the country had deferred plans to repair and upgrade features it occupies in the South China Sea. Manila has insisted that it will continue to observe a moratorium on construction in the Spratlys that began while the International Tribunal on the Law of the Sea was reviewing the Philippines' case against Beijing. Manila did file a diplomatic protest with China following the confirmation of weapons emplacements in the Spratlys. One of the affected islands falls within the Philippines' Exclusive Economic Zone (EEZ).

Recommended Readings

"China's New Spratly Island Defenses," *Asia Maritime Transparency Initiative* (Dec. 13, 2016).

Michael Forsythe and Chris Buckley, "Taiwan Responds After China Sends Carrier to Taiwan Strait," *The New York Times* (Jan. 10, 2017).

Zeeshan Aleem, "Why Rex Tillerson's comments on the South China Sea have Chinese state media up in arms," *Vox* (Jan. 13, 2017).

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Saudi Arabia in transition

On January 30, Saudi Arabia's cabinet approved a 5% value-added tax applicable to certain goods. It represents a step further away from the tax-free, subsidized existence for citizens that has been central to Saudi Arabia's "ruling bargain." The move comes as Gulf governments look to raise revenues in the face of a two-and-a-half year slump in the global price of crude.

Saudi Arabia's deficit decreased to \$79 billion in 2016, coming in under the year's budget plan and far below the record \$98 billion deficit for 2015. The 2017 budget increases spending to encourage economic growth. The deficit is still projected to shrink due to increased emphasis on non-oil revenues as well as higher oil prices. The new budget allocates some 42 billion Saudi riyals for the National Transformation Plan (NTP) in 2017, out of a total of 268 billion riyals through 2020. The NTP looks to create more than 450,000 new non-governmental jobs and to boost private sector contributions while slashing public expenditures.

U.S.-Saudi relations had deteriorated under the Obama administration. In early December, the U.S. blocked a transfer of precision munitions to Saudi Arabia in the Yemen conflict, citing concerns about poor targeting and civilian casualties. The transfer was to consist of guided munitions kits that would have upgraded "dumb bombs" to more accurately hit targets. The decision to block the transfer followed a blocked sale of cluster munitions for similar reasons earlier in 2016. The U.S. reviewed its engagement in the Yemen conflict after a Saudi airstrike hit a funeral in Sana'a in October.

U.S. support for the nuclear deal with Iran has particularly rankled Saudis, who see it as emblematic of a U.S. shift toward Iran that began with the Arab uprisings in 2011. Saudi Arabian Foreign Minister Adel al-Jubeir expressed hope for the future of U.S.-Saudi relations under President Trump. The president "has made it his objective to rebuild traditional alliances or alliances with traditional American allies, and this is something that we also welcome," he noted in a press conference in January.

That same month, President Trump issued an executive order severely limiting immigrants and refugees

from seven predominantly Muslim countries. The ban did not apply to Saudi Arabia, although it cited terrorism as its primary concern (fifteen of the nineteen 9/11 attackers were Saudi nationals). King Salman spoke to President Trump by phone on January 29. A read-out of the call released by the White House specified that the king had agreed to support Trump's proposed safe zones in Syria and Yemen, in addition to "supporting other ideas to help the many refugees who are displaced by the ongoing conflicts."

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Ahmed Feteiha and Zainab Fattah, "Main Features of Saudi Arabia 2017 Budget, 2016 Performance," Bloomberg (Dec. 22, 2016).

Declan Walsh, "In Face of Trump's Order, Some Muslim Nations Are Conspicuously Silent," The New York Times (Jan. 29, 2017).

William Maclean, "Glad to see Obama go, Gulf Arabs expect Trump to counter Iran," Reuters (Jan. 23, 2017).

Latin America's political pendulum

Latin America's so-called "pink tide" is on the ebb. It is replaced by a shift toward center-right governments that represents an opportunity for renewed U.S. engagement in the region. But domestic political challenges in Latin America, as well as early signals from the Trump administration, throw the potential for improved ties into question.

At a Community of Latin American and Caribbean States (CELAC) summit in January, leaders condemned President Trump's controversial border wall with Mexico. In the short term, President Trump's executive order to begin construction on the wall could worsen bottlenecks of migrants at borders across the region. The numbers fleeing Honduras, El Salvador and Guatemala—the same groups that caused a major crisis at the U.S. border in 2014—are expected to increase as migrants try to get ahead of stricter immigration controls.

Cubans are already backed up along the U.S. border after President Obama's repeal of the "wet foot, dry foot" policy. The longstanding policy allowed Cubans who arrived on U.S. shores to become permanent residents without visas. President Trump has been critical of Cuba's human rights record and of Obama administration moves to ease restrictions on the country. Still, Cubans remain hopeful that Trump will renew their special immigration status. In his confirmation hear-

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ing, Secretary of State Rex Tillerson said the president was preparing to review recent Obama administration executive orders on Cuba.

President Trump's promised renegotiation or withdrawal from the North American Free Trade Agreement (NAFTA) could benefit Brazil, giving it the opportunity to forge new bilateral deals. The country's economy faces a steep uphill battle against a two-year recession and a sweeping political corruption scandal. In December, the Brazilian Senate passed a controversial austerity package limiting public spending for the next 20 years.

Venezuela remains embroiled in its own crisis, continuing to battle chronic shortages of basic supplies. On January 16, the government belatedly issued new banknotes in response to hyperinflation. Secretary of State Tillerson has echoed the Obama administration's call for dialogue with Caracas. Socialist President Nicolás Maduro said in January that Trump "won't be worse than Obama...In Latin America [Obama] will be remembered for three coups."

Secretary Tillerson has expressed a more controversial view of U.S. policy toward Colombia. In his confirmation hearing, Tillerson stated that he would review the historic peace agreement between the government and FARC rebels, reached in November, before determining the appropriate level of U.S. support. The Obama administration had promised financial aid to bolster the deal, in addition to aid routinely given via the Plan Colombia agreement. Colombia is the United States' closest ally in the region and a key partner in the "war on drugs."

If the U.S. closes the door on Latin America, China is prepared to step in. Beijing already has bilateral free trade agreements with Chile and Peru—two members of the Trans-Pacific Partnership, from which President Trump recently withdrew. China has plans to significantly increase bilateral trade with Latin American countries and increase the total investment stock value by 150% in coming years. It has also begun ambitious infrastructure projects in many Central and South American countries.

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Jonathan Watts, "Can Latin America avoid the global vortex in 2017?" *The Guardian* (Dec. 31, 2016).

Mark Magnier, "China Charts Deeper Focus on Latin America," *The Wall Street Journal* (Nov. 25, 2016).

"Trump's wall isn't Latin America's only problem," *CNN* (Jan. 26, 2017).

Nuclear security

On January 26, the Bulletin of the Atomic Scientists moved its Doomsday Clock—a symbolic countdown to potential global catastrophe—30 seconds closer to midnight, the closest it has been since 1953. The Bulletin justified the choice as reflecting both nuclear and climate change concerns, "largely because of the statements of [President Donald Trump]" as well as his actions, including his cabinet nominees. The Bulletin also cited, among other issues, continued nuclear weapons development in North Korea and modernization in nuclear weapons states; uncertainty about the future of the Iran nuclear deal; tensions between India and Pakistan; and reduced prospects for future nuclear arms reduction negotiations between the U.S. and Russia in a context of deteriorating relations.

President Donald Trump has sent conflicting signals about his administration's potential nuclear policy since his time on the campaign trail. In December, then-President-elect Trump sparked confusion when he appeared to condone a global nuclear arms race. This was apparently in response to a speech by Russian President Vladimir Putin to military leadership, in which Putin promised to strengthen Russia's nuclear missiles. In a Twitter post on December 22, Trump stated that the U.S. should greatly "expand its nuclear capability." He then told an MSNBC interviewer, "Let it be an arms race." In an interview the next month with *The Times of London*, he said he would be willing to barter an end to sanctions imposed after Moscow's annexation of Crimea in exchange for a nuclear reduction deal.

Concerns have been raised about the possibility that the Trump administration might pressure Energy Secretary Rick Perry to resume underground testing as part of the U.S. program to safeguard its atomic stockpile. Since 1998, when India and Pakistan invited global ire by conducting such tests, no country, with the exception of North Korea, has performed them.

On January 31, U.S. officials confirmed that Iran had conducted its first test-fire of a ballistic missile since President Trump took office. The launch may provide a litmus test for how the U.S. will handle the terms of the Joint Comprehensive Plan of Action (JCPOA, or the Iran deal) going forward. White

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House National Security Adviser Michael Flynn said in response that the U.S. was putting Iran “on notice,” a statement which President Trump echoed on Twitter. The contours of that position remain unclear.

Trump has frequently threatened to dismantle the JCPOA. Defense Secretary Jim Mattis indicated in his confirmation hearing that the U.S. should continue to adhere to the deal. Reflecting on the first anniversary of the JCPOA in January, Iranian President Hassan Rouhani emphasized that its renegotiation was “out of the question,” chiefly because it is a multilateral agreement. A statement issued by the Obama White House on the occasion likewise emphasized the multi-lateral nature of the deal.

On January 1, North Korea announced that it was preparing for its first ever flight test of an Intercontinental Ballistic Missile (ICBM). In a phone call with South Korean Acting President Hwang Kyo-ahn later that month, President Trump allayed some of the fears sown during his campaign, including the suggestion that South Korea was not making adequate financial contributions to help maintain the nearly 30,000 American troops stationed there. President Trump assured Acting President Hwang that the U.S. remains committed to South Korea’s defense. The leaders agreed to strengthen joint defense capabilities against North Korea and expressed the importance of action to deter the North’s nuclear weapons development program. Secretary Mattis visits South Korea in early February, where a central focus will be continued U.S. commitment to the deployment of the Terminal High Altitude Area Defense system (THAAD).

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Ali Vaez, “Trump’s Iran Deal Options,” Foreign Affairs (Jan. 23, 2017).

Lawrence M. Krauss and David Titley, “Thanks to Trump, the Doomsday Clock Advances Toward Midnight,” The New York Times (Jan. 26, 2017).

Steven Pifer and Alicia Sanders-Zakre, “The vice president’s farewell on nuclear security,” Brookings (Jan. 17, 2017).

