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Global Business Risks and Opportunities: Trumponomics, Brexit and the Year 2017

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Introduction

Regional integration is not an end in itself, but a strategic choice that helps firms and nations to maximize the benefits of globalization. Trade liberalization, rapid advances in technology, and the rising importance of supranational regulations, among others, are three important factors that explain the global economy's recent trajectory.

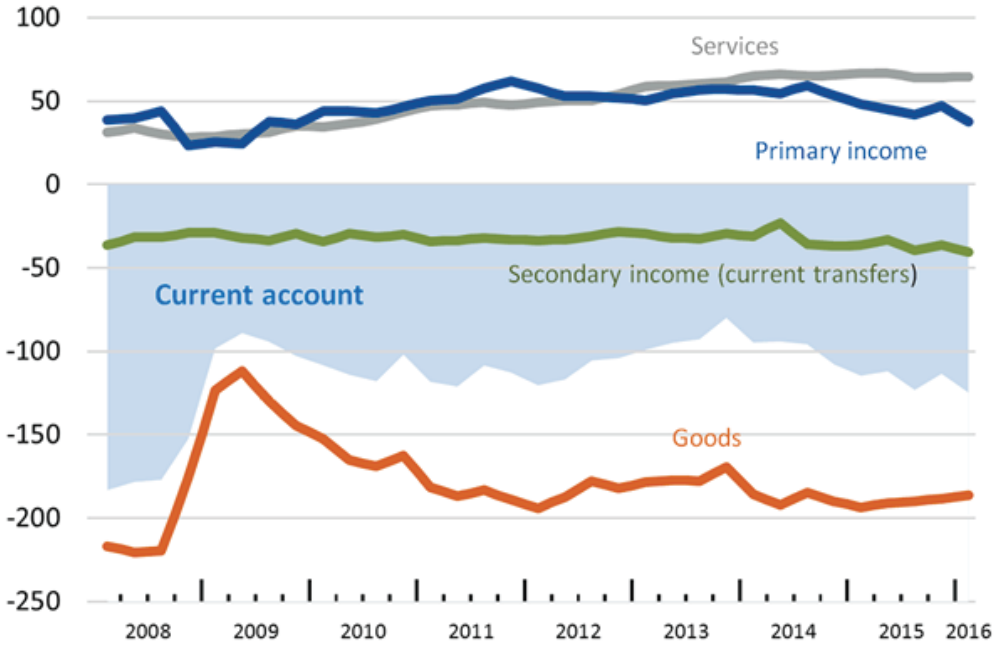
Since the demise of the Berlin Wall in 1989, and the collapse of communism that followed, Brexit and Donald Trump's victory in the U.S. elections – the two defining events of 2016 – are two developments in recent history that defy globalization as the driving force of the international economic and political order. In other words, they seem illogical by contradicting the conventions of the post-war order. To a large extent, both produced a reverse trend to globalization and have been described as part of a wider populist rebellion against free trade and regional integration.

Brexit and Protectionist Trumponomics

Post-Brexit, calls for referendums on European Union (EU) membership continue unabated across Europe. The shockwaves of Donald Trump's election continue to create anxiety, as global business enthusiasts scramble to figure out how his presidency will impact them. This has huge implications for open and export-oriented economies. Expectedly, this has a profound impact on the decision processes of firms with global supply chains, especially multinationals.

We highlight below three key policy issues that global business managers will have to navigate past as they weigh cross-border risks and opportunities in a bid to maximize the benefits of globalization for growth.

Figure 1 | U.S. Current-Account Balance and Its Components ($US Billion) (Seasonally Adjusted)



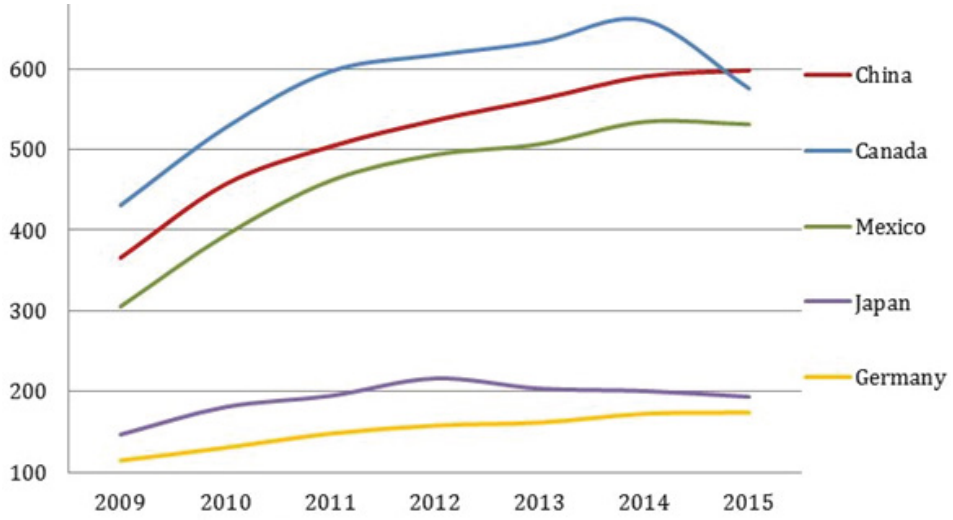
Source: U.S. Bureau of Economic Analysis

Trade Policy

Mr. Trump promised repeatedly during the election campaign to cancel or renegotiate trade agreements that are not in the interest of the U.S. This is in addition to higher import tariffs. Such Trump-style protectionism has strategic implications for firms whose activities and capabilities are directly or indirectly tied to the North American Free Trade Agreement (NAFTA), Trans Pacific Partnership (TPP) and the U.S.- EU Transatlantic Trade and Investment Partnership (TTIP).

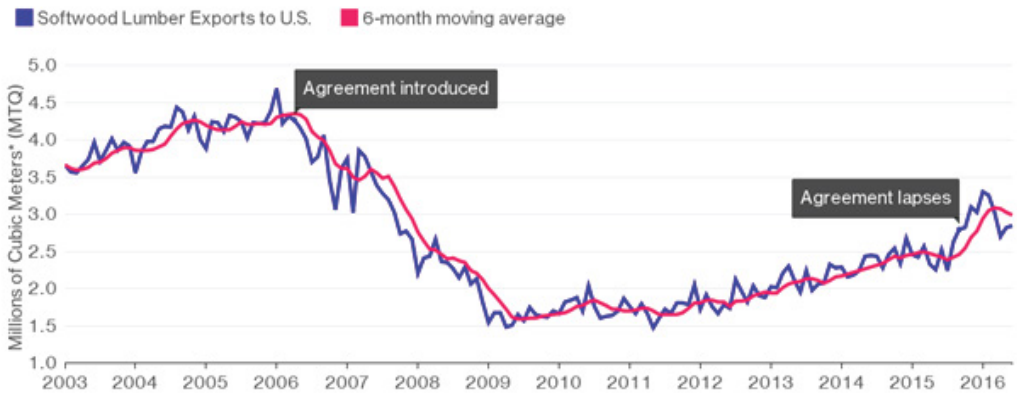
The U.S. remains Canada's largest trading partner. The EU is in the second position. China is third, and Mexico a distant fourth. To put this into perspective, Canada-U.S. two-way trade in goods and services were worth more than US$690 billion in 2015. As with any policy, pulling out of NAFTA will generate unintended consequences for businesses – and the economies involved. If NAFTA were to be abrogated or renegotiated, the lacuna created under either scenario may push the bilateral Canada-U.S. Free Trade Agreement (CUFTA) to the front burner – as the policy compass for

Figure 2 | Top U.S. Bilateral Trade Partners ($US Billion)



Source: U.S. Census Bureau

Figure 3 | Canadian Softwood Lumber Exports to the U.S. (Seasonally Adjusted)



Source: Statistics Canada, Bloomberg

Canada-U.S. trade relations. A U.S.-centric approach may produce sup-optimal results for Canada. For instance, the renegotiation of the softwood lumber agreement between Canada and the U.S., which expired over a year ago, will likely produce disproportionately lower benefits for Canada.

Mr. Trump is very clear on the TPP: he will kill it on the first day of his presidency. This will have competitiveness implications for certain strategic U.S. industry sectors like aviation and high tech in overseas markets. This is not the case for Canada. This 12-country Pacific Rim trade agreement did not receive much enthusiasm under the immediate past Conservative government – and the current Liberal government.

Considering that there is no bilateral trade agreement between Canada and Japan, lost opportunities for Canada under a dead TPP scenario will be negligible. The only notable exception will be forgone Canada-Japan free trade benefits. Similar to TPP, TIPP will generate knock-on effects for firms with strategic interests in intellectual property rights, digital commerce and environmental protections, among others.

To bridge any potential gap, trade economists and analysts are increasingly calling on Canada to expand to new markets in Asia and Africa.

Energy Policy

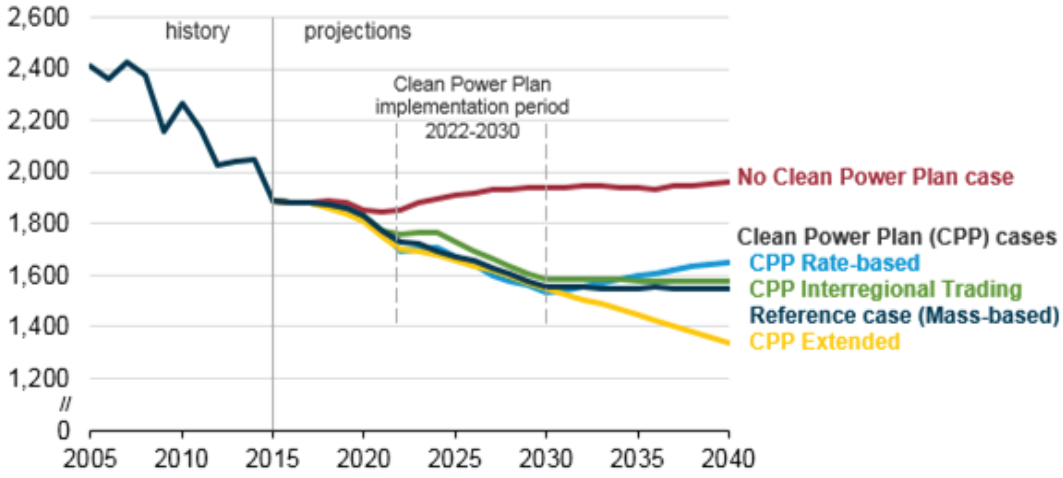
From all indications, Trump appears to be a friend to the oil and gas business. The oil price downturn, which started in June 2014, continues to force companies to rethink their business models. As a strategy to stay afloat, players in the upstream oil industry continue to engage in activity cutbacks. Upstream and pipeline companies stand a good chance of benefitting from Trump's campaign promise to open up federal land to drilling. That is in addition to potential policy reversals on hydraulic fracturing and greenhouse gas emissions.

Climate Change Policy

Uncertainty looms over what a Donald Trump presidency will mean for efforts so far targeted at combating climate change. In particular, major actors' eyes are fixated on two main frameworks: the Paris Agreement and the Clean Power Plan. While recent events indicate that pressure – from home and abroad – may prompt Trump to backtrack on his position on the campaign trail to cancel the Agreement already ratified by more than 80 countries, the story may well differ for the domestic Clean Power Plan.

For instance, the likelihood of the Trump administration greenlighting further implementation of President Obama's 2015 methane emissions reduction policy is low. President Obama and Prime Minister Trudeau announced in 2016 that their two countries will work together to reduce methane emissions from the oil and gas sector by 40 to 45 per cent below 2012 levels by 2025. Among other things, this policy introduced regulations to address venting and fugitive emissions. Another key policy issue worth mentioning is hydraulic fracturing – a drilling technique used for extracting oil or natural gas from unconventional formations.

Figure 4 | U.S. Power Sector CO2 Emissions, 2005 – 2040 (Million Metric Tonnes)



Source: U.S. Energy Information Administration

In all, petroleum producing and refining companies will be the ultimate beneficiaries; they can expect to benefit from increased activity due largely to the reduced prospects of the Clean Power Plan limiting their ability to produce and refine unconventional oil and gas.

Conclusions

On the campaign trail, Trump consistently lashed out at China for currency manipulation. His proposed 45 percent tariff on Chinese imports may foreshadow a tougher foreign policy toward China. As the world eagerly watches to see how the tables turn on the neoliberal game, U.S.-China relations remain a major factor that will determine how the new wave of protectionism and trade tensions impact global economic growth.

Last but not least, the burgeoning "bromance" between Trump and Russia's Vladimir Putin remains an important factor that may define the future of U.S. policy and traditional global North-South relations.

About Author

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Dr. Fred Olayele is President/Chief Economist of the Global Economic Institute for Africa. An Adjunct Professor of International Business with the Sprott School of Business at Carleton University, he teaches in the MBA program. He has taught various applied and theoretical economics classes at the University of Regina.

Dr. Olayele's diverse career spans banking, government, management consulting and academia across Africa, Europe and North America. Much of his work examines the complex intersection of economics, business strategy and public policy.

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