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The Rise of Trump and Its Global Implications

Turning Trouble Around: Re-imagining US Role as Global Player

By Christopher Lim and Vincent Mack

Synopsis

Donald Trump's shock election victory has left America divided. However, deep socio-economic challenges exist within the US. Nevertheless, making both America and the world "great again" is not mutually exclusive.

Commentary

THE SHOCK election victory of Donald Trump has created a divided America. Globally, his campaign posturing has caused much uncertainty. With Trump's promise to cancel the Trans Pacific Partnership (TPP), renegotiate the North American Free Trade Agreement (NAFTA), and impose tighter immigration regulations, the United States seems on the brink of slamming its doors shut on the world and starting a trade war.

Amongst his many campaign promises, President-elect Trump had pledged to slap a 45 percent tariff on all Chinese imports, end the Offshoring Act to bring back jobs and profits, and buff up national security by improving infrastructure and ending illegal immigration. For Trump to retain credibility, he will need to deliver on many of his election promises. There may still be a way for the new commander-in-chief to take this forward so that America can still benefit while minimising disruption to the world economy.

Challenges Facing the US

CNBC, CNN and other US media have commented that in parts of the US, infrastructure resemble those in developing nations with unmaintained roads and bridges and damaged pipelines. The 2013 report card by the American Society of Civil Engineers (ASCE) rated America's infrastructure poorly, averaging a D+ score due to its "significant backlog of overdue maintenance across infrastructure systems" along with "a pressing need for modernisation".

The ASCE projects that the US requires US\$4 trillion of infrastructure investment between 2016 and 2025. At the international level, the US has the largest trade deficit in the world, accumulating over the past decades a trade imbalance of over \$7.3 trillion.

At the same time, the primary trading partners with the US have substantial amount of foreign reserves. China – responsible for at least 40 percent of the total US deficit in goods – has the largest foreign reserves in the world at \$3.5 trillion, followed by Japan at \$1.3 trillion.

Meanwhile, according to a Reuters report in 2015, the largest 500 American MNCs hold more than \$2.1 trillion in profits parked offshore, which would amount to an estimated \$620 billion in taxes if the funds were repatriated. This is due to America's corporate tax rates, which at around 35 percent is the highest amongst the OECD countries and third highest in the world. In comparison, the corporate tax rate for OECD countries averages at around 25 percent.

Finally, the US' current position as the global peacekeeper and policeman has drawn criticism that it behaves unilaterally to safeguard its national interests at the expense of others.

Addressing the Challenges: Some Ideas

For the US economy to remain competitive globally, Trump could change the current corporate tax system by lowering corporate tax rates to 15 percent, or even matching Ireland at 12.5 percent. This is also an opportunity to simplify the current tax code, by minimising the tax deductions.

This would prevent MNCs from gaming the tax system. Given its large domestic consumer market, this would create an investment opportunity for both American and foreign companies, encouraging them to produce on US soil leading to an increase in jobs.

As an added incentive to attract American money home, Trump could also grant a one-off special tax concession for US companies to repatriate profit currently parked offshore if they invest in US infrastructure. At the same time, the US government could also consider privatising selected infrastructure. In place of imposing a high punitive tariff rate on trading partners that enjoy a trade surplus with the US; a Trump-led government could instead invite all these trading partners to invest in and own US infrastructure projects.

This is a better alternative to fighting a trade war, which will lead to a race to the

bottom as they retaliate tit-for-tat with their own trade restrictions. This proposal will help to turn adversaries into economic and business partners and resolve the current \$1.44 trillion infrastructure investment gap as identified by the ASCE. Once pressing infrastructure needs are accounted for, the remainder could be used to fund the building of the “Great Wall of Trump”, increasing job creation for Trump’s support base.

Trump could also take up Democrat Senator Bernie Sanders’ suggestion to levy a speculation tax on Wall Street. This will not only gratify opposition voters, but can also raise monies for welfare policies such as education grants. This can be a prelude to a long-term solution to bridge the rich-poor divide.

Re-imagining Role of US as Global Player

Trump’s suggestion that NATO countries increase payment for their defence will reduce the US financial burden. Countries hosting US military bases could take a partnership approach – they could increase percentage of the costs they pay in exchange for more checks and balances on US military power. Given that US military expenditure comprises around 54 percent of the federal budget (discretionary spending), reducing the amount could be an alternative source to be tapped on for socio-economic purposes.

This would not only alleviate US funding woes but also recast the US in the role of an international police. As partners rather than help recipients, the US cannot unilaterally decide to withdraw from the conflict zones and has to be accountable to its funders. This would also buy the world time to adjust to the transition of the US to a new balance.

For the US to revitalise its economy, President-elect Trump needs to find a way to increase funding to fulfill election promises. Despite his seemingly isolationist discourse, the interests of the US are not at odds with the rest of the world. Once the US economy is revitalised, it will create demand for the rest of the world and can engage the world as a responsible economic powerhouse. In short, President-elect Trump has the potential to use his administration to make America and the world great again.

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