This week, the Simon Chair held an event on the potential impact of recent reforms to the Committee on Foreign Investment in the United States, better known as CFIUS. The event featured a keynote from Representative Jeb Hensarling (R-TX), Chairman of the House Financial Services Committee, which has jurisdiction over CFIUS. In his comments, the Chairman underscored the importance of foreign investment to the health of the U.S. economy. He also highlighted his Committee’s efforts to “ensure that the law could not be abused as a potential tool of industrial policy, protectionism or economic control.”

Notwithstanding the Chairman’s assurances, one event attendee characterized the CFIUS reform as another step toward the administration’s goal of “autarky,” defined by Merriam-Webster as “national economic self-sufficiency and independence.” That interpretation strikes me as excessively pessimistic, at least when it comes to inbound foreign investment. On net, the expansion of CFIUS to cover certain minority (non-controlling) investments and real estate transactions may well reduce foreign investment in the United States and Chinese investment in particular. But if Chairman Hensarling and the event’s closing speaker, Treasury Assistant Secretary Heath Tarbert, are taken at their word, a reformed CFIUS “is not mutually exclusive with (U.S.) long-standing support for an open investment climate.”

Still, CFIUS reform comes at a time when national security is being used as justification for other actions with economic consequences; and alongside the renegotiation of existing trade agreements, which despite claims of achieving “incredible deal(s) for both parties,” contain elements that could be seen as protectionist and to the detriment of U.S. competitiveness. While we are far from a world of economic self-sufficiency, we may well be entering a period of “de-globalization,” where the goal of policy is to discourage trade and financial linkages, at least in certain sectors.

Previous U.S. administrations have been reluctant to use national security as a pretext for restricting trade, recognizing that doing so would undermine the rules of the global trading system. President Trump’s speech at the United Nations General Assembly earlier this week made clear his deep skepticism of a system that he sees as having “taken advantage” of the United States. It stands to reason that his administration would not shy away from actions that could damage a system already seen as unfit for purpose.

Some countries have managed to avoid the imposition of tariffs on national security grounds by agreeing to quota restrictions on steel exports to the United States. Of course, limiting supply will, other things equal, increase the cost. Higher prices might be a boon for some U.S. steel producers, but U.S. consumers of steel—including U.S. manufacturers—will face higher costs, which undercuts competitiveness, profitability, or both. We await the findings of the Commerce Department’s investigation into whether the import of automobiles and automotive parts into the United States threaten our national security. Given the near-unanimous opposition to the auto investigation itself, it’s hard to identify the national security or economic rationale for any action.

Aspects of recent trade agreement renegotiations provide further evidence of a trade policy that seems to prioritize the protection of special interests over reducing barriers to free and fair trade. The renegotiated U.S.-Korea Free Trade Agreement includes a provision that extends a 25 percent tariff on trucks imported into the United States, protecting the market for domestic manufacturers and keeping prices higher for U.S. consumers. Similarly, in the renegotiation of the North American Free Trade Agreement (NAFTA), Mexico agreed to a new labor value content rule requiring 40 to 45 percent of auto content be produced by workers earning at least $16 per hour. The requirement will likely hurt the competitiveness of North American auto manufacturers versus other regional production hubs, a point CSIS’s Trade Guys have made repeatedly in their podcasts.
A PATH TO DE-GLOBALIZATION? (continued)

In addition, while the United States backed away from requiring a sunset clause in a re-negotiated NAFTA (or U.S.-Mexico Agreement), it insisted on a mandatory review, turning “North America from a quasi-permanent free-trade area into a quasi-temporary free-trade area.” While a review is preferable to a five-year sunset, it still creates a greater degree of uncertainty, increasing risks for investors and weighing negatively on investment.

But not all aspects of U.S. international economic policy tilt toward de-globalization. As noted with regard to CFIUS reform and recognizing the legitimate national security risks posed by some foreign investment in the United States, Congress and the administration appear to have struck a reasonable balance in protecting national security while still welcoming productive foreign investment into the United States. Ultimately, the ability of CFIUS to preserve an open investment climate while keeping out only those investments which pose a legitimate threat to national security will depend on how CFIUS conducts its reviews and whether it maintains a case-by-case approach, something CFIUS agencies should be better equipped to do thanks to the additional resources provided under the reform legislation.

On trade, the administration has at least started to differentiate between friends and foes, even if it’s not entirely clear what will be the concrete results of recently announced agreements. In July, President Trump and European Commission President Jean-Claude Juncker agreed to establish an Executive Working Group on trade; and earlier this week, President Trump and Prime Minister Abe of Japan agreed to enter into negotiations on a U.S.–Japan Trade Agreement on “goods, as well as on other key areas including services.” The question remains whether these agreements will lower barriers to trade; or if they will only advance selected interests. At a minimum, reaching an agreement with U.S. allies and partners should allow the United States to focus its energies on addressing the challenges presented by China and convincing others to do the same. The administration’s top priority (after reaching an agreement with Canada) should be clearly defining U.S. economic objectives vis-à-vis China, with a view toward resolving tensions rather than realizing what some have cautioned could be a 20-year trade war. The failure to do so really could put us on a path to de-globalization.

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