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"AMERICA FIRST" PROTECTIONISM THREATENS CROSS-BORDER FINANCE, NEW PAPER FINDS

> Trump Administration protectionist demands could lead to significant barriers to trade in financial services even before walls go up for trade in goods. This would pose significant challenges to U.S. recovery as well as threaten the franchise value of cross-border financial companies.

WASHINGTON, DC, February 9, 2017 – As President Trump rolls out his "America First" agenda, little notice has been given to how this affects the cross-border trade in financial services key to the payments, funding, and flows, lending, and capital markets that form the foundation of global trade and economic growth. A new paper from Federal Financial Analytics, Inc. (FedFin) is the first assessment of the market, macroeconomic, and policy impact of trade-in-financial-services barriers. It finds the focus since the election on protectionism for trade in goods from countries such as Mexico has obscured the still more damaging consequences of trade-in-finance restrictions sure to accompany trade-in-goods protectionism or perhaps even precede it.

"It's important to remember that trade in financial services is subject not only to law and treaty, but also to many rules fully within the discretion of national regulators. The U.S. Federal Reserve has proved this with its tough standards for foreign banks in the U.S. well before the President and other economic nationalists took power. Now, with heads of state at their heels, regulators around the world will move forward with an array of trade in financial services demands, with demands sure to be especially tough from U.S. regulators attuned to President Trump and foreign ones keen for retaliation," said Karen Shaw Petrou, FedFin managing partner.

The new paper shows how President Trump can change the terms for trade in financial services by word alone, noting for example that the principal grounds of global policy here derive from the World Trade Organization. Mr. Trump said the U.S. should withdraw from the WTO during the campaign; if in office he reiterates this, nations will take it as a given that the U.S. is going and implement retaliation where they can regardless of the extent to which the WTO nominally remains a binding constraint.

International financial institutions such as the IMF will also come under scrutiny by Mr. Trump and Congressional Republicans long determined to pull the U.S. out of these global bodies. This will also reduce U.S. influence even if the U.S. ultimately does not officially remove itself from entities that play a key role in pressuring nations to abide by open financial-services borders and sound prudential regulation.

Congressional Republicans are already pushing for the U.S. to pull back from the Financial Stability Board, the Basel Committee, and other global standard-setters. Mr. Trump's February 3 Executive Order indicated a commitment to stay in this game, but to what end is most unclear. If it is to increase U.S. financial competitiveness, as suggested in the Order, talks will break down even if they continue.

Key conclusions in the paper are that:

- An array of pending initiatives that ring-fence U.S. financial activities will advance in tandem with retaliatory foreign measures. Although Mr. Trump's executive order included references to continued participation in global financial negotiations, the substance of U.S. positions so far combined with the animus resulting from trade-in-goods policy will make compromise very challenging.

- Unless Congress intervenes or Mr. Trump's appointees quickly take office, U.S. regulators will nonetheless continue to participate in global negotiations and implement gold-plated domestic requirements. In part because of divergent U.S. policy, international harmonization will end in practice in 2017 and then by decree in 2018.
- Key strategic factors (e.g., M&A prospects, subsidiarization, permissible activities) will vary based on home country and charter. Chinese companies – already a deep U.S. worry – will face still more stringent sanctions, as will financial institutions from any country believed to be uncooperative with U.S. trade or foreign-policy initiatives that need approval from the Trump Administration.
- New challenges will emerge to cross-border financial infrastructure and capital flows.
- Trade-in-goods barriers that result in higher prices, even if short-lived, will force higher FRB interest rates or more quantitative easing. An array of profitability, stability, and distributional challenges result, although specific implications will depend also on the structure of the U.S. financial policy and the extent to which Mr. Trump's financial-reform agenda has advanced.

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Federal Financial Analytics, Inc. is a proprietary think tank providing analytical and advisory services on legislative, regulatory, and public-policy issues affecting global financial-services companies. Since 1985, the firm's practice has been a unique blend of strategic advice and policy analysis, serving as a thought leadership resource for boards of directors and senior management seeking a forward looking assessment of risks, opportunities, governance, and other matters critical to success. Clients also include senior regulators and policy-makers around the globe, who rely on the firm's objectivity for confidential forecasts of the market impact of actions under consideration.