

Trump Trade Policy: Exercise in Futility

Douglas Irwin
Dartmouth College



PROCLAMATIONS

President Donald J. Trump Proclaims May 20 through May 26, 2018, as World Trade Week

ECONOMY & JOBS | Issued on: May 18, 2018



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ALL NEWS

America's trade relationships are critical to our economic vitality and world leadership. During World Trade Week, we reaffirm our Nation's unwavering commitment to trading regimes that are free, fair, and reciprocal.

Our Nation has entered a new era in trade policy that is based on the recognition that our economic security is critical to our national security. My trade agenda aims to accelerate American exports through policies that are focused on rebuilding our industries, strengthening the defense industrial base in the United

Adam Smith on free trade

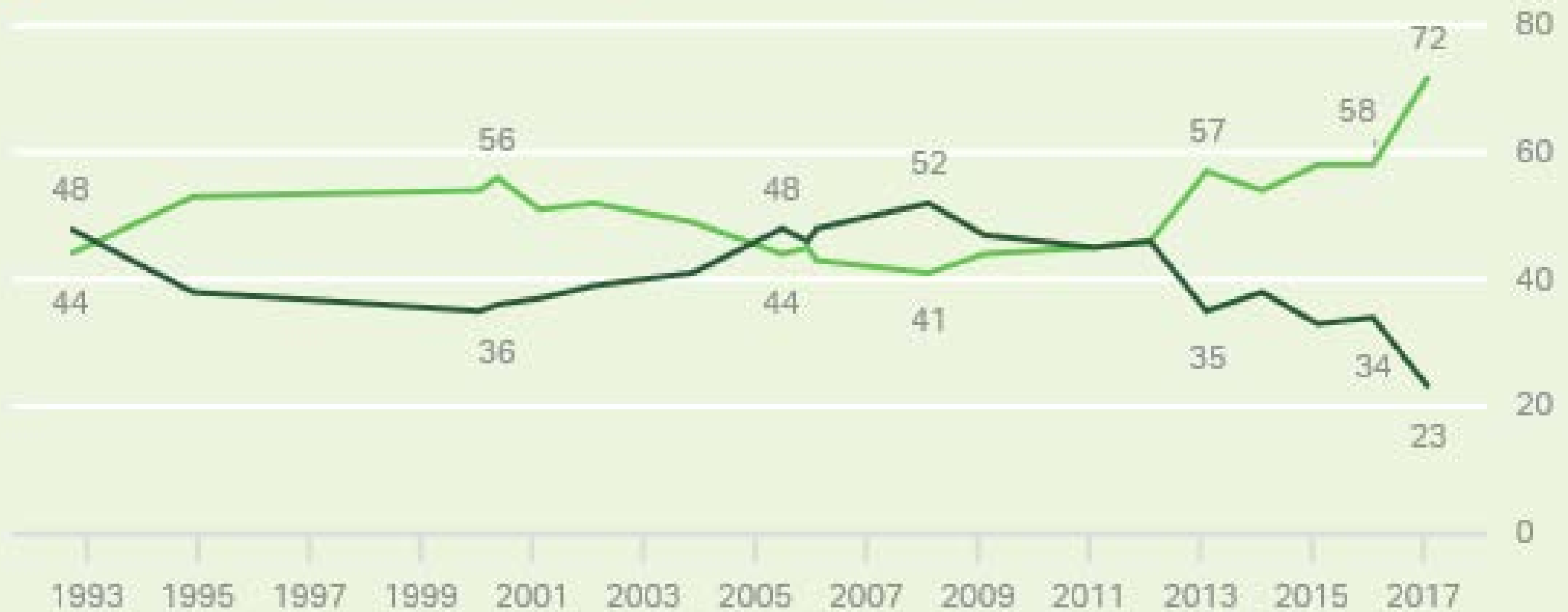
- “Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it”



Americans' Views on Foreign Trade

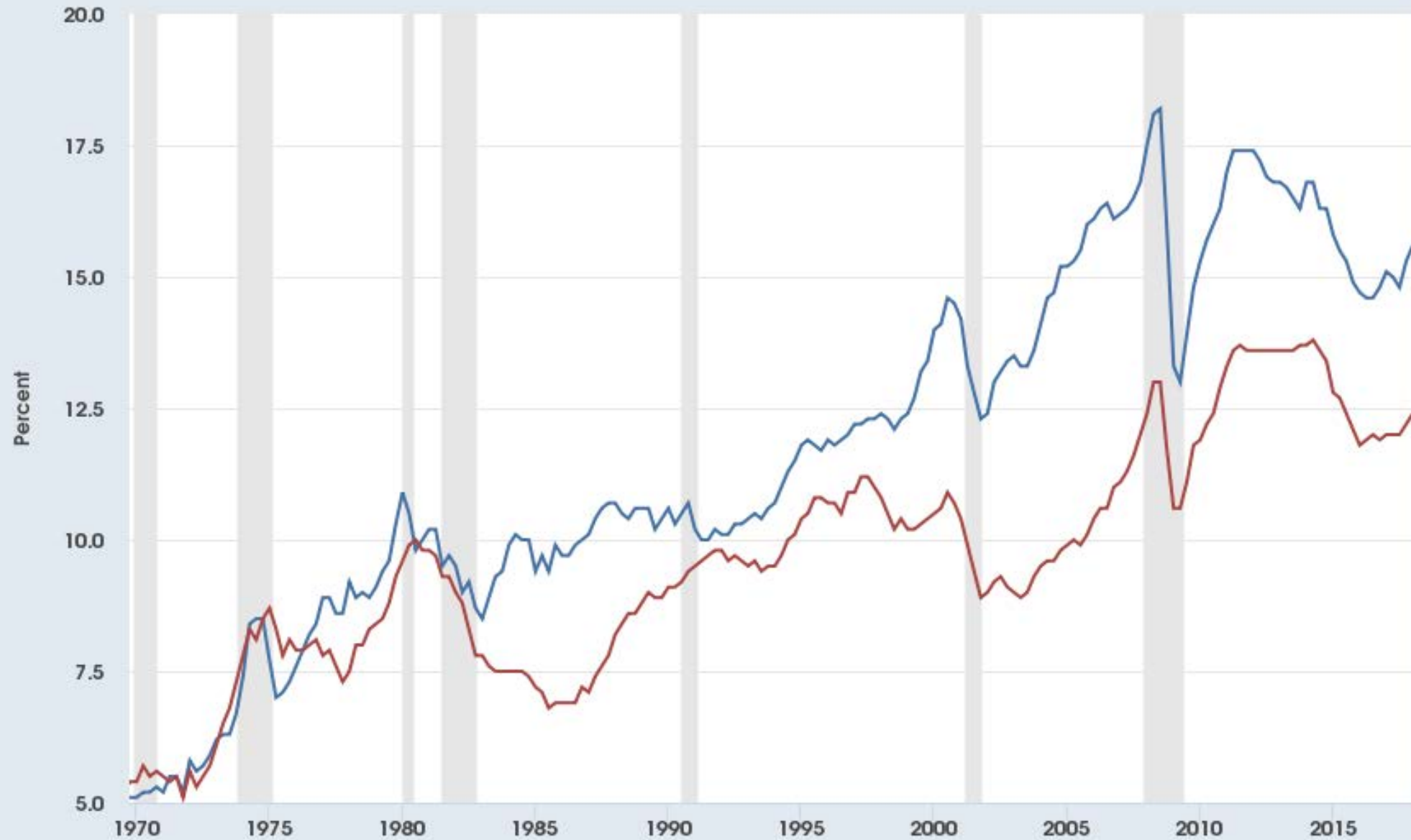
What do you think foreign trade means for America? Do you see foreign trade more as an opportunity for economic growth through increased U.S. exports or a threat to the economy from foreign imports?

■ % Opportunity for economic growth ■ % Threat to the economy





— Shares of gross domestic product: Imports of goods and services
— Shares of gross domestic product: Exports of goods and services



Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Economic Analysis

myf.red/g/jY08

Bad Ideas



Steel industry



Trump trade premises

1. U.S. is most open market in the world
2. Other countries don't offer reciprocal market access, treat U.S. unfairly
3. U.S. "losing" & others "winning"
4. How do we know? → U.S. trade deficit

Adam Smith

- “Nothing, however, can be more absurd than this whole doctrine of the balance of trade, . . . When two places trade with one another, this doctrine supposes that, if the balance be even, neither of them either loses or gains; but if it leans in any degree to one side, that one of them loses and the other gains in proportion to its declension from the exact equilibrium. Both suppositions are false.”

Problems with Trump approach

1. Misunderstanding the causes of the trade deficit
2. Wrongly blaming trade agreements for outcomes (yet complaints about reciprocity)
3. Alienating friends & allies, no new agreements

US trade deficit

- Consumption $>$ Production
- Reflect capital inflows from abroad, NOT trade agreements
- Trump policies will increase trade deficit
 - Increase in fiscal deficit (large $\uparrow G$, large $\downarrow T$) – more borrowing


Actions so far . . .

- Withdraw from Trans-Pacific Partnership (TPP)
- Renegotiate NAFTA, KORUS
- Safeguard protection (washing machines, solar panels)
- National security protection (steel, aluminum, and cars?!?)
- Tough line with China? (threatens 25% tariffs on \$150 billion imports)
- Disable WTO dispute settlement system



Donald J. Trump ✓

@realDonaldTrump

 Follow

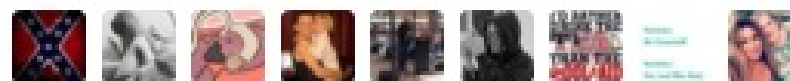
The Trans-Pacific Partnership will increase our trade deficits & send even more jobs overseas. This is a bad deal. Time for smart trade!

RETWEETS

77

LIKES

111



8:50 AM - 3 Jun 2015





Governor Mike Pence ✓

@GovPenceIN

 Follow

Trade means jobs, but trade also means security. The time has come for all of us to urge the swift adoption of the Trans Pacific Partnership

RETWEETS

729

LIKES

338



10:37 AM - 8 Sep 2014



729



338



© Governor Mike Pence / Twitter



OFFICE of the UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT

Summary of Objectives for the NAFTA Renegotiation

Monday, July 17, 2017

Summary of Specific Negotiating Objectives for the Initiation of NAFTA Negotiations

Trade in Goods:

- Improve the U.S. trade balance and reduce the trade deficit with the NAFTA countries.

Industrial Goods

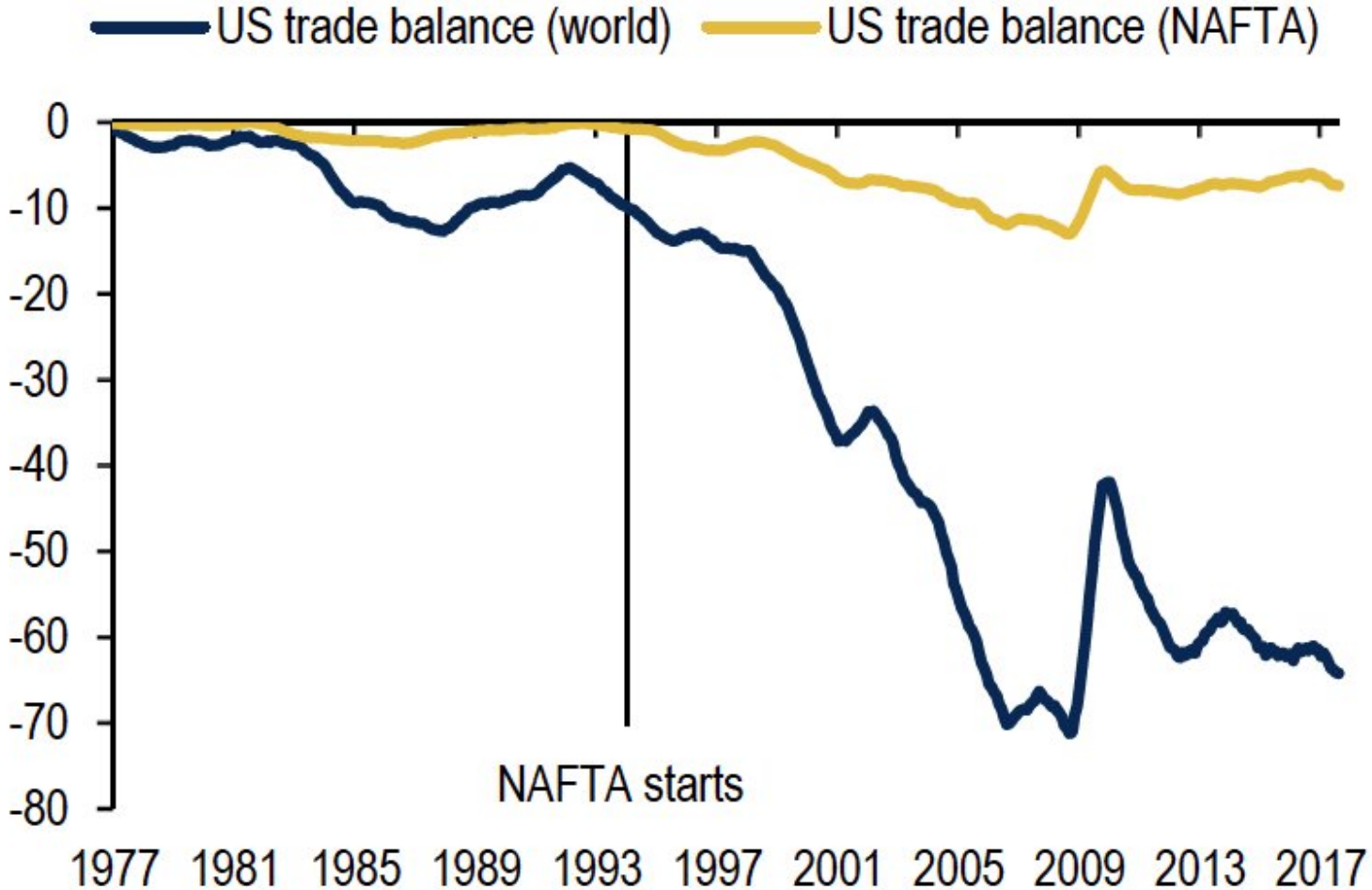
- Maintain existing reciprocal duty-free market access for industrial goods and strengthen disciplines to address non-tariff barriers that constrain U.S. exports to NAFTA countries.
- Maintain existing duty-free access to NAFTA country markets for U.S. textile and apparel products and seek to improve competitive opportunities for exports of U.S. textile and apparel products while taking into account U.S. import sensitivities.
- Promote greater regulatory compatibility with respect to key goods sectors to reduce burdens associated with unnecessary differences in regulation, including through regulatory cooperation where appropriate.

Agricultural Goods

- Maintain existing reciprocal duty-free market access for agricultural goods.
- Expand competitive market opportunities for U.S. agricultural goods in NAFTA countries, substantially equivalent to the competitive opportunities afforded foreign exports into the U.S. market, by reducing or eliminating remaining tariffs.
- Seek to eliminate non-tariff barriers to U.S. agricultural exports including discriminatory barriers, restrictive administration of tariff rate quotas, other unjustified measures that unfairly limit access to markets for U.S. goods, such as cross subsidization, price discrimination, and price undercutting.
- Provide reasonable adjustment periods for U. S. import sensitive agricultural products, engaging in close consultation with Congress on such products before initiating tariff reduction negotiations.
- Promote greater regulatory compatibility to reduce burdens associated with unnecessary differences in regulation, including through regulatory cooperation where appropriate.



Chart 1: US trade balance, 12m rolling average (\$ bn)



Source: Census Bureau, Haver Analytics

NAFTA renegotiation

- Was renegotiated in TPP
- Odd demands
 - Trade balance trigger?
 - 5-year sunset
 - Tighter rules of origin (85% for autos!)
 - Break into bilaterals
 - Dispute settlement – eliminate investor-state provision

 Pinned Tweet




Jenny Leonard @jendeiben · 25 Oct 2017




Today I talked to a lot of senators about their lunch with Trump, who laid out his tactic for how to get a 'better' #NAFTA: "Just trust me."

Inside U.S. Trade @insidetrade

Senators: Trump called NAFTA withdrawal threat a 'negotiating tactic,' urged them to 'trust' him dlvr.it/PxbZtr

 26

 107

 148



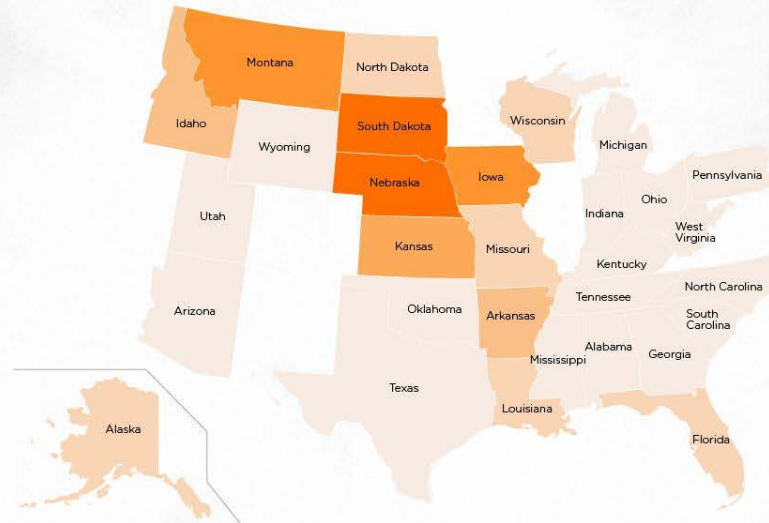


Disruptions to NAFTA Agricultural Trade Could Especially Hurt Trump-voting States

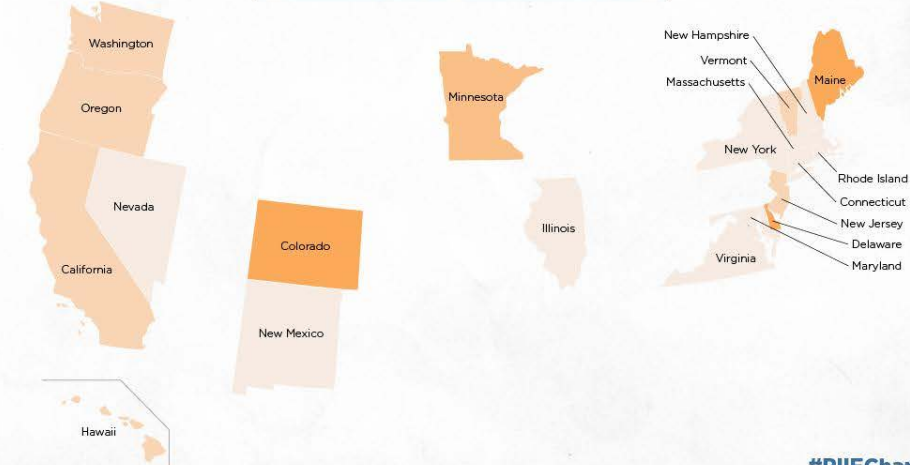
Percent of total exports to NAFTA countries in agriculture



States Won by Trump in 2016



States Won by Clinton in 2016



Source: US Census Bureau. Agriculture trade broadly defined as HS chapters 1-24. Compiled by Cathleen Cimino-Isaacs. Learn more at <https://piae.com/research/piae-charts/disruptions-nafta-agricultural-trade-could-especially-hurt-trump-voting-states> PAIE Chart by Melina Kolb.

#PIECharts



TRENDING

Exclusive: Trump vents in Oval Office, "I want tariffs. Bring me some tariffs!" 1 hr ago

'Worst case scenario' hits Houston 3 hrs ago

Scoop: Trump frustration with Tillerson rising fast 1 hr ago

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Axios AM (All Mikey)

Mike Allen is your early-morning guide to the vital news in business, politics, tech and media.

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Combating America's food waste problem

The answer may be your ugly fruits and veggies.

LATEST NEWSLETTERS



Jonathan Swan 1 hr ago

FEATURED

Exclusive: Trump vents in Oval Office, "I want tariffs. Bring me some tariffs!"



Pablo Martinez Monsivais / AP

The following is a rare account of President Trump in a small Oval Office meeting, venting at senior staff for

Selective protection

- Escape clause (Section 201) – washing machines & solar panels
- National security (Section 232) – steel and aluminum & CARS!!



Donald J. Trump ✓

@realDonaldTrump

Follow



Our Steel and Aluminum industries (and many others) have been decimated by decades of unfair trade and bad policy with countries from around the world. We must not let our country, companies and workers be taken advantage of any longer. We want free, fair and SMART TRADE!

12:12 PM - 1 Mar 2018



Donald J. Trump ✓

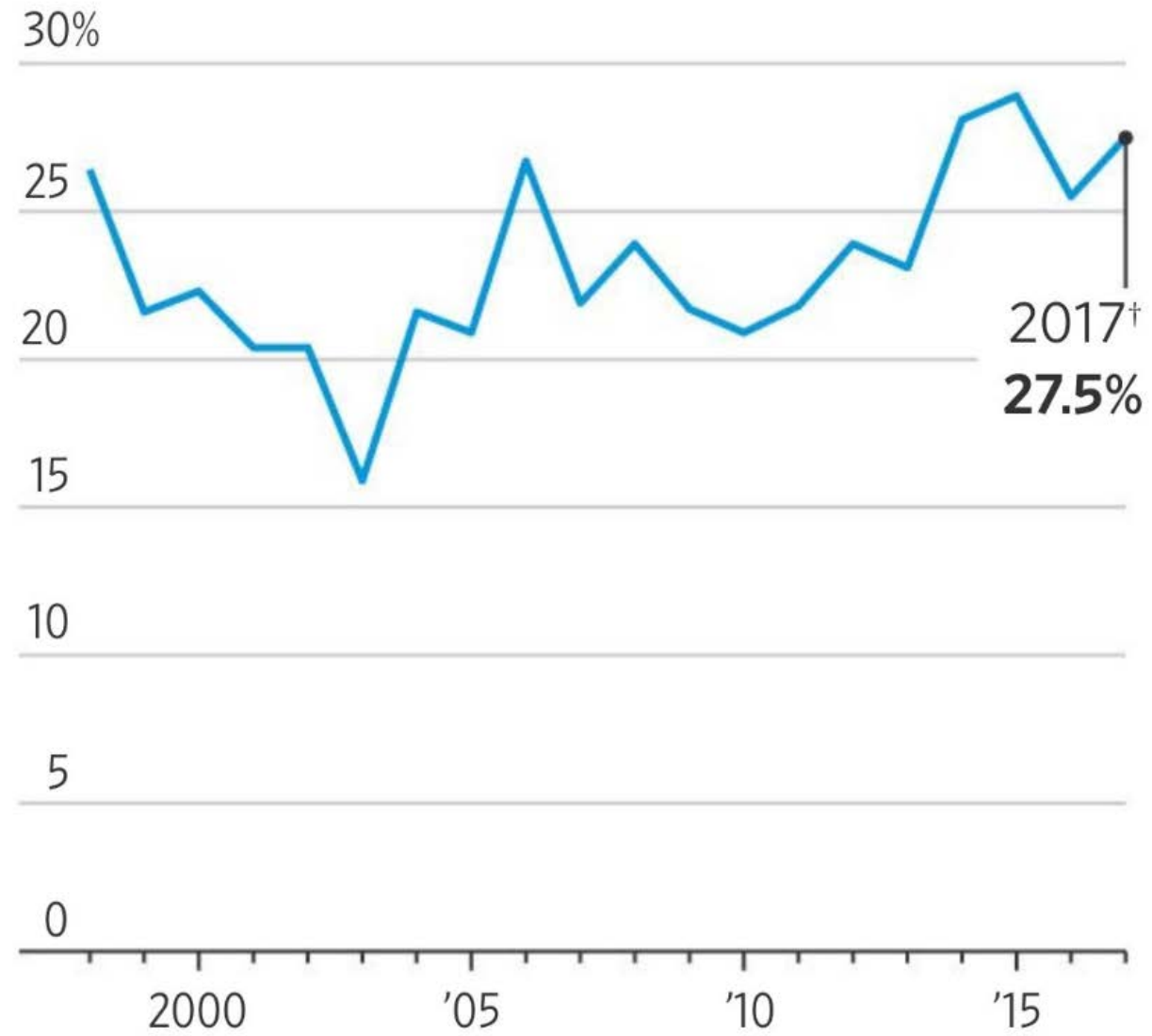
@realDonaldTrump



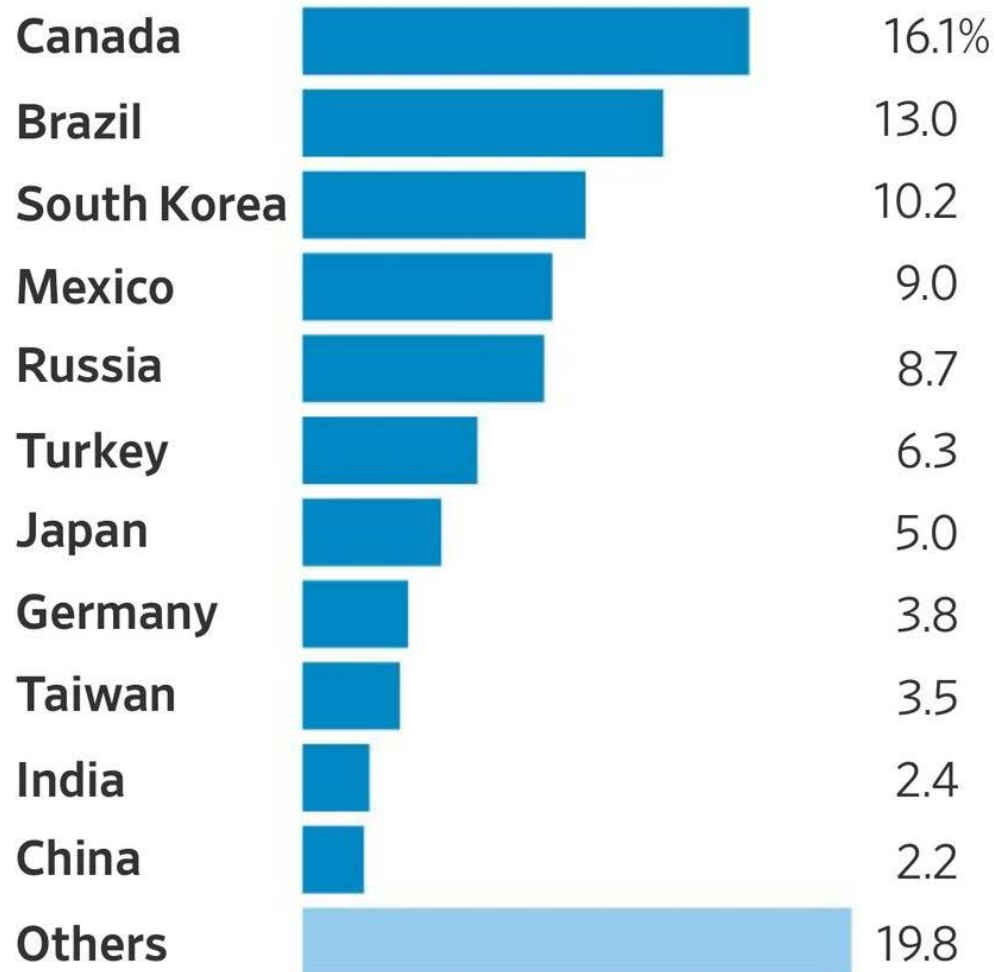
We must protect our country and our workers. Our steel industry is in bad shape. IF YOU DON'T HAVE STEEL, YOU DON'T HAVE A COUNTRY!

3/2/18, 8:01 AM

U.S. steel imports as a share of domestic market*



Share of U.S. steel imports by country, 2017[†]



*Finished steel products (excludes semi-finished)

[†]Through October 2017

Source: U.S. Department of Commerce



SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

MEMORANDUM FOR SECRETARY OF COMMERCE

SUBJECT: Response to Steel and Aluminum Policy Recommendations

This memo provides a consolidated position from the DoD on the investigation of the effect of steel mill imports and the effects of imports of aluminum on national security, conducted by the Department of Commerce under Section 232 of the Trade Expansion Act of 1962 (hereinafter "Section 232 Report").

Regarding the December 15, 2017 reports on steel and aluminum, DoD believes that the systematic use of unfair trade practices to intentionally erode our innovation and manufacturing industrial base poses a risk to our national security. As such, DoD concurs with the Department of Commerce's conclusion that imports of foreign steel and aluminum based on unfair trading practices impair the national security. As noted in both Section 232 reports, however, the U.S. military requirements for steel and aluminum each only represent about three percent of U.S. production. Therefore, DoD does not believe that the findings in the reports impact the ability of DoD programs to acquire the steel or aluminum necessary to meet national defense requirements.

DoD continues to be concerned about the negative impact on our key allies regarding the recommended options within the reports. However, DoD recognizes that among these reports' alternatives, targeted tariffs are more preferable than a global quota or global tariff. In addition, we recommend an inter-agency group further refine the targeted tariffs, so as to create incentives for trade partners to work with the U.S. on addressing the underlying issue of Chinese transshipment.

If the Administration moves forward with targeted tariffs or quotas on steel, DoD recommends that the management and labor leaders of the respective industries be convened by the President, so that they may understand that these tariffs and quotas are conditional. Moreover, if the Administration takes action on steel, DoD recommends waiting before taking further steps on aluminum. The prospect of trade action on aluminum may be sufficient to coerce improved behavior of bad actors. In either case, it remains important for the President to continue to communicate the negative consequences of unfair trade practices.

This is an opportunity to set clear expectations domestically regarding competitiveness and rebuild economic strength at home while preserving a fair and reciprocal international economic system as outlined in the National Security Strategy. It is critical that we reinforce to

our key allies that these actions are focused on correcting Chinese overproduction and countering their attempts to circumvent existing antidumping tariffs – not the bilateral U.S. relationship.

cc:
Secretary of the Treasury
Secretary of State
Chief of Staff to the President
Assistant to the President for National Security Affairs
Chairman, National Economic Council
United States Trade Representative

Commerce Secretary Wilbur Ross



"In a can of Campbell Soup, there are about 2.6 pennies worth of steel. So if that goes up by 25 percent, that's about six-tenths of one cent on the price on a can of Campbell Soup," Ross argued. "I just bought this can today at a 7-Eleven ... and it priced at a \$1.99. Who in the world is going to be too bothered?"

EU leader responds to Trump's tariff plan: 'We can also do stupid'

Published: Mar 8, 2018 2:47 a.m. ET



European Union leaders on Wednesday discuss possible responses to potential U.S. tariffs on steel and aluminum imports



By
**VICTOR
REKLAITIS**
MARKETS WRITER



European Commission President Jean-Claude Juncker isn't mincing words when it comes to tariffs.

European Union officials are priming their regulatory guns to fire back at U.S. President Donald Trump's tariff plan.

EU leaders on Wednesday were discussing possible responses to the [Trump administration's proposal](#) to impose tariffs on steel and aluminum imports.

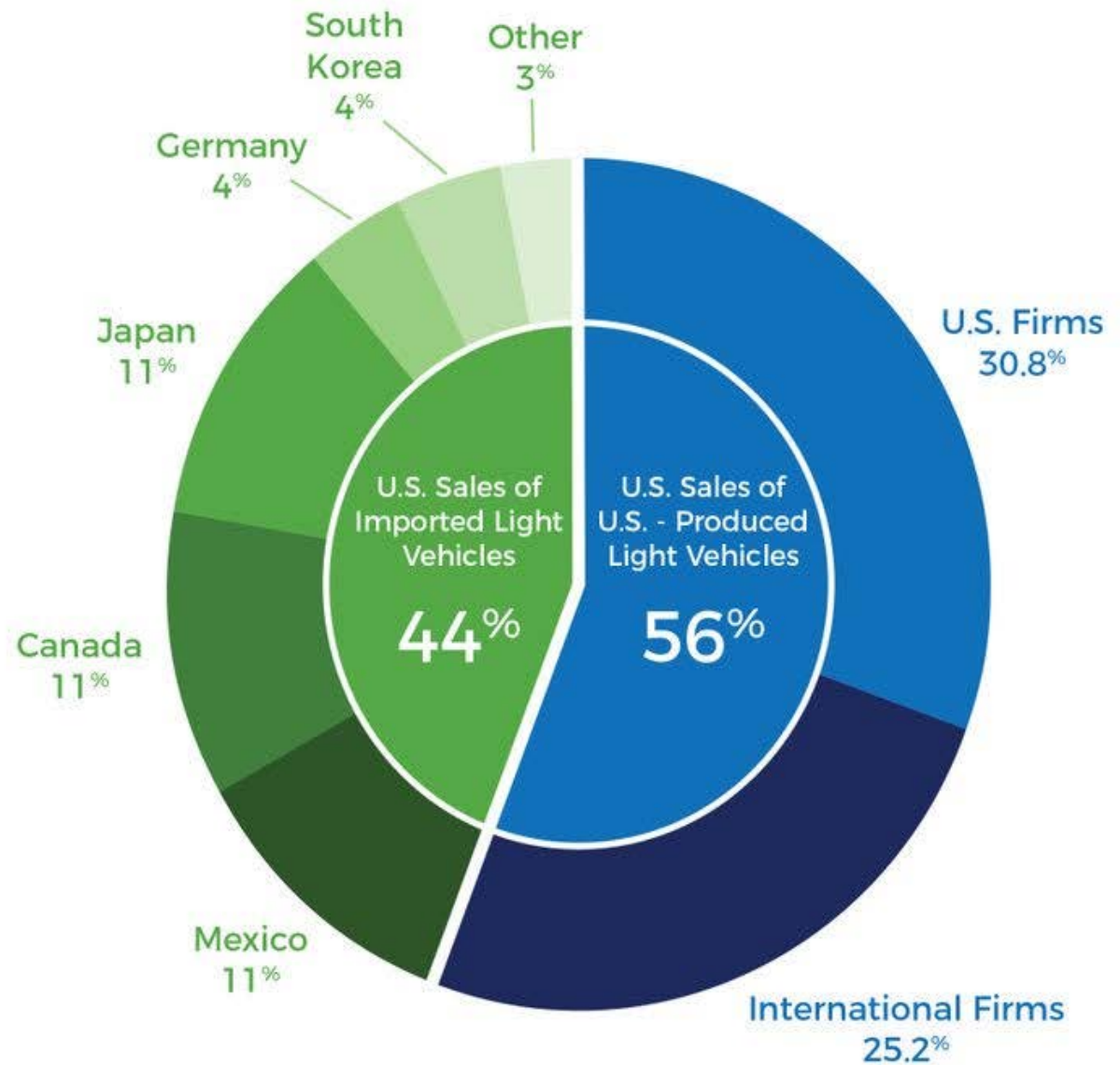
European Commission President Jean-Claude Juncker offered this comment in recent days, according to multiple published reports.

'This is basically a stupid process, the fact that we have to do this. But we have to do it. ... We can also do stupid.'

European Commission President Jean-Claude Juncker on responding to Trump's tariff plan

- "So now we will also impose import tariffs. This is basically a stupid process, the fact that we have to do this. But we have to do it. We will now impose tariffs on motorcycles, Harley Davidson, on blue jeans, Levis, on Bourbon. We can also do stupid. We also have to be this stupid."

Auto sales 2017



OFFICE *of the* UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT

FINDINGS OF THE INVESTIGATION INTO
CHINA'S ACTS, POLICIES, AND PRACTICES
RELATED TO TECHNOLOGY TRANSFER,
INTELLECTUAL PROPERTY, AND INNOVATION
UNDER SECTION 301 OF THE TRADE ACT OF 1974



March 22, 2018

- Return of Section 301
- Threatens 25% tariffs on \$150 billion of US imports from China

Demands on China (May 2018)

DISCLAIMER: The U.S. delegation is providing the below draft framework solely to help facilitate candid and constructive exchanges between the two sides. The current text is not a proposed international agreement and remains subject to ongoing review. In the interest of time and out of respect for the seriousness of the issues that the two sides will discuss, this document is being provided in advance of the visit and while this review is ongoing.

The U.S. delegation looks forward to discussing this draft and related issues later this week in Beijing.

BALANCING THE TRADE RELATIONSHIP

between

THE UNITED STATES OF AMERICA AND THE PEOPLE'S REPUBLIC OF CHINA

The Government of the United States of America ("United States") and the Government of the People's Republic of China ("China") have strong overlapping interests as the world's two largest economies and the major drivers of global growth. At present, the United States-China trade relationship is significantly imbalanced. United States investment and the sale of services into China remain severely constrained. China's industrial policies now targeting U.S. technologies and intellectual property pose significant economic and security concerns to the United States.

There is an immediate need for the United States and China to reduce the U.S. trade deficit with China by ensuring that China's market is open to United States traders and investors on a fair and non-discriminatory basis. China therefore undertakes to (a) eliminate improper tariff and non-tariff barriers to United States exports to China, (b) address China's policies and practices related to technology transfer and intellectual property, (c) treat United States service providers in China on terms equal to those provided to Chinese service providers in the United States, and (d) record China's agreement not to target United States farmers and agricultural products. To address these issues and restore balance in the United States-China trade relationship, there is an immediate need for the United States and China to agree on a set of concrete and verifiable actions.

SECTION 1



TRADE DEFICIT REDUCTION

China commits to work with Chinese importers to engage in trade transactions to achieve targets to which the Parties agree. These transactions are specifically designed to reduce the United States-China trade deficit by \$100 billion in the twelve (12) months beginning June 1, 2018, and an additional \$100 billion in the twelve (12) months beginning June 1, 2019, such that the U.S. trade deficit with China will have decreased compared to 2018 by at least \$200 billion by the end of 2020. China's purchase of U.S. goods will represent at least 75% of China's commitment to a \$100 billion increase in purchases of U.S. exports for the twelve months beginning June 1, 2018, and at least 50% of China's commitment to an additional \$100 billion increase in purchases of U.S. exports in the twelve (12) months beginning June 1, 2019.

 **PLAYBOY**
ENTERTAINMENT FOR ALL



Interview

Playboy Interview: Donald Trump

By Glenn Plaskin

This story appears in the March 1990 issue of Playboy.

The Japanese double-screw the U.S., a real trick: First they take all our money with their consumer goods, then they put it back in buying all of Manhattan.

Donald Trump sits alone. He hasn't slept in 48 hours. ¶ At six a.m., perched high in the bronze-coated jewel of his empire, Trump Tower, he's bent over a mammoth Brazilian-rosewood desk, scrutinizing spread sheets. No insomnia, no gnawing worries. ¶

hair mas

27 min



LIVE

1 hr

TRUMP NOMINATES GINA HASPEL AS HIS CHOICE TO BE THE NEXT CIA DIRECTOR, PI

7:27 PM MT

Back to the 1980s?

- Similar concerns:
 - trade deficit
 - old industries (autos, steel)
 - Section 301 - unfair trade (Japan, now China)
- Problematic responses:
 - Managed trade, VERs, VIEs
- Big differences
 - Trade deficit stable today
 - Reagan dealing with recession – no one asking for protection today!!
 - Reagan had strategic vision of freer trade & stronger multilateral system

CLASHING OVER COMMERCE

★ A History of US Trade Policy ★

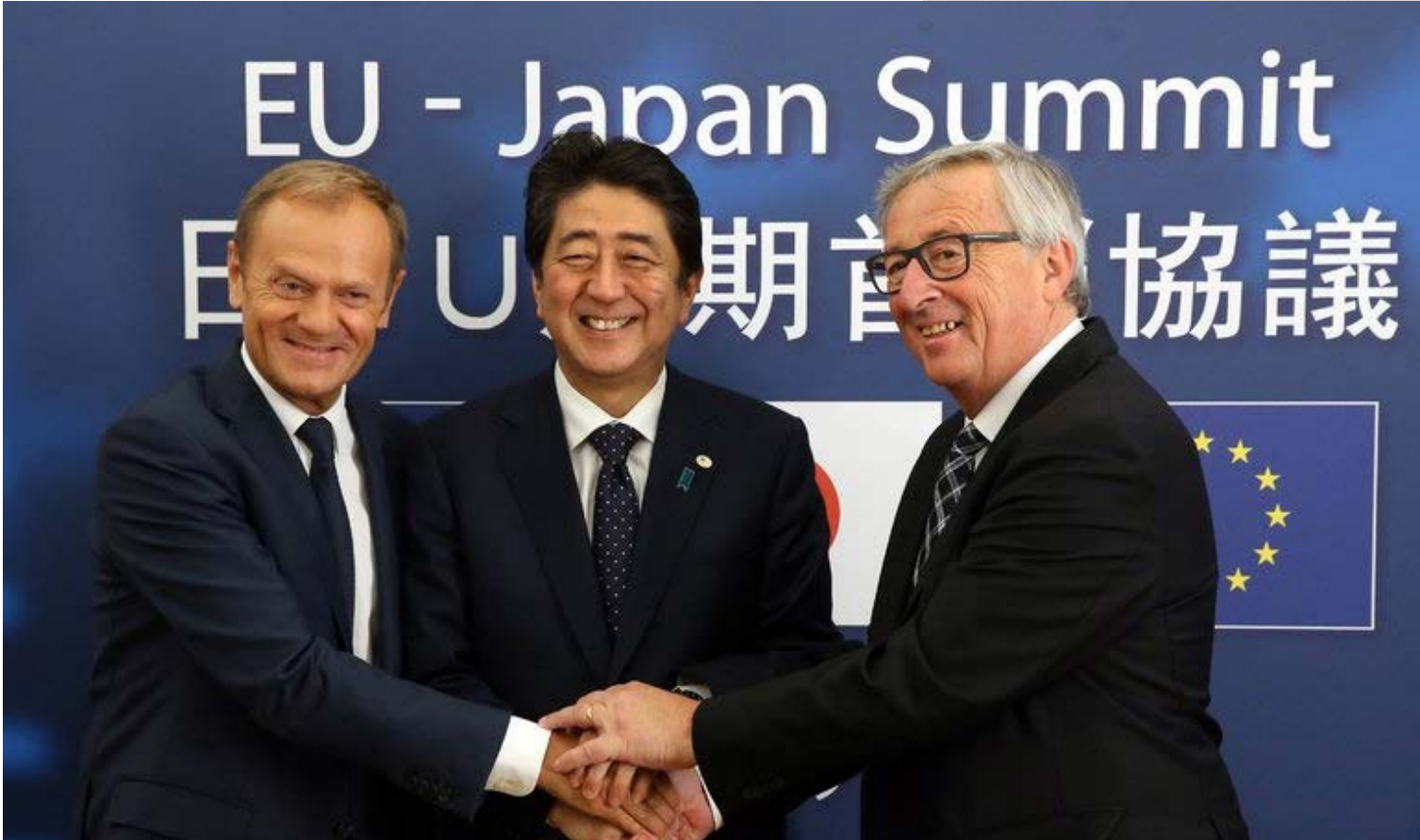
DOUGLAS A. IRWIN



Problems with Trump approach

- Misunderstanding the causes of the trade deficit
- Wrongly blaming trade agreements (yet complaints about reciprocity)
- Alienating friends and allies, no new agreements

July 2017



October 2017



EU
CANADA



COMPREHENSIVE ECONOMIC
AND TRADE AGREEMENT
(CETA)



March 2018



March 2018

HOME SEARCH **The New York Times**

[Most of Africa's Leaders Sign On to Continent-Wide Free Trade Pact](#) [Boko Haram Returns Dozens of Schoolgirls Kidnapped in Nigeria](#) [Cambridge Analytica Had a Role in Kenya Election, Too](#) [The Last Male Northern White Rhino Is Gone](#) [PAID PG Look O Coming](#)

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AFRICA

Most of Africa's Leaders Sign On to Continent-Wide Free Trade Pact

By JINA MOORE MARCH 21, 2018



African leaders during a meeting on the new trade pact in Kigali, Rwanda. Jean Bizimana/Reuters

NAIROBI, Kenya — More than 40 African countries signed a free trade pact on Wednesday that the nations hope will fulfill a long-held dream of greater economic integration on the continent.

But among the holdouts are two of Africa's biggest economies, Nigeria and South Africa, raising concerns about whether the agreement can make good

Why exercise in futility?

- Won't reduce trade deficit
- Won't bring back manufacturing jobs
- Won't lead to "better" trade agreements
- Risks retaliation to detriment of exports

Adam Smith

- “Commerce, which ought naturally to be, among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity.”



"All the News
That's Fit to Print"

The New York Times

Late Edition
New York: Today, morning showers, afternoon sun. High 53-58. Tonight, clouds, fog and drizzle. Low 45-50. Tomorrow, some sun. Highs 61-67. Yesterday: High 51, low 44. Details, page 16.

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NEW YORK, SATURDAY, APRIL 18, 1987

36 cents beyond 35 miles from New York City, except on Long Island.

30 CENTS

SRI LANKA REBELS KILL 107 CIVILIANS IN JUNGLE AMBUSH

TAMILS WOUND 60 OTHERS

Sinhalese Returning From a
Holiday Celebration Are
Pulled Out of Buses

By The Associated Press

COLOMBO, Sri Lanka, April 17 — Tamil guerrillas ambushed three buses and two trucks loaded with civilians today, dragged passengers onto the jungle road and killed at least 107 with machine guns and grenades, officials said.

About 60 people were wounded in the attack, which lasted about 15 minutes, according to Tikak Ratanakara, chief of the Government's Media Center. He said women and children were among the victims, most of whom were ethnic Sinhalese.

The killings were the worst in nearly two years in the Sri Lankan civil war, a conflict noted for vengeance killings of civilians by soldiers, Tamil rebels and Sinhalese village militias.

Toll Since '83 Is 5,000

More than 5,000 people have been killed since militants began their campaign in July 1983. The rebels want greater autonomy for the Tamils, who they say are discriminated against by the majority Sinhalese, who control the Government and the army.

"This is genocide of the Sinhalese people," Mr. Ratanakara said. "The terrorists are trying to drive away the Sinhalese from the Trincomalee District and claim it as their traditional homeland."

Other officials said the Sinhalese passengers had been separated from the others and then killed.

"There were all kinds of families, with fathers, mothers and children returning to their homes after the New Year celebrations," Mr. Ratanakara



Lieut. Col. Luis Polo, right, commander of 14th Airborne Regiment, with troops outside barracks held by rebellious officers in Cordoba. He said later that he signed a statement of loyalty to the Government.

ARGENTINA'S ARMY MOVES TO HEAD OFF OFFICER REBELLION

Crisis Appears to Be Easing
as Rebels End One Action
— 2d Base Surrounded

By SHIRLEY CHRISTIAN
Special to The New York Times

BUENOS AIRES, April 17 — The Argentine Army, declaring its loyalty to the Government of President Raul Alfonsín, moved today to end a rebellion by officers opposed to the prosecution of military officers on human rights charges.

Late tonight, troops backed by artillery began moving into the outskirts of Buenos Aires from bases in towns surrounding the capital, taking up positions around the infantry school at the Campo de Mayo army base where the last of the rebellious officers were holding out.

Several thousand civilians gathered outside the base on a highway north of the city, chanting their support for democracy for several hours before being ordered out of the area.

"Will Not Vacillate"

Gen. Ernesto Arturo Alain, who was leading the troops, said he intended to "retake" the school, and Defense Minister Horacio Jauregui said the armed forces "will not vacillate in the use of force although we will use all the persuasive methods first."

But presidential spokesman José Ignacio López said some of the rebellious officers had withdrawn from the school during the evening and that the situation was "tending to come under the control of the high command."

The president of the lower house of Congress, Juan Carlos Pugliese, said the possibility of declaring a state of siege, which had been under consideration, had been "diluted."

The two-day crisis began to ease when a cashiered army major who had refused to respond to a court summons

Japanese Items Affected by Tariffs



Computers
Laptop computers with liquid crystal screens capable of handling 16 bits and desktop computers capable of handling 16 bits
\$160 million



TV Sets

Color televisions with 18, 19 and 20 inch screens
\$90 million



Rotary drills

And other power tools such as sanders, grinders, polishers and power percussion hammers
\$30 million

The New York Times/April 18, 1987

U.S. Will Test Bomb Detector For Air Cargo

By RICHARD WITKIN

The Federal Aviation Administration this spring will conduct tests of an advanced detection system designed to keep bombs or other explosive devices from being loaded into the cargo holds of airliners.

The system's heart is a detection chamber, able to examine each item of luggage or cargo in six seconds, which will first be given a four-week trial at San Francisco International Airport and later have similar tryouts at several other terminals.

Government officials hope that such

PRESIDENT IMPOSES TARIFF ON IMPORTS AGAINST JAPANESE

100% ON SELECTED GOODS

Move Affects a Tiny Fraction
of 2 Nations' Total Trade,
but Is Seen as a Signal

By GERALD M. BOYD
Special to The New York Times

SANTA BARBARA, Calif., April 17 — President Reagan, asserting that he was trying "to enforce the principles of free and fair trade," imposed a 100 percent tariff today on some Japanese-made computers, television sets and power tools.

White House officials said American consumers could substitute similar foreign and domestic products to avoid higher prices. Retailers agreed that consumers should feel little effect, except for those who buy laptop computers. [Page 31.]

The proclamation, the first major retaliation against Japan in the postwar period, reflects the Administration's contention that Tokyo failed to comply with a semiconductor agreement signed with Washington last July.

"Deeply Regrettable"

Japanese officials, eager to prevent the trade conflict from escalating further, continued to argue that Japan was upholding the semiconductor agreement, and called on Washington to withdraw the tariff. While also sounding a conciliatory note, Tadashi Kuranari, Japan's Foreign Minister, called the American move "deeply regrettable." [Page 31.]

The American tariff action covers products whose sales to the United States brought Japanese manufacturers \$300 million last year, which is a tiny fraction of the \$21 billion in electronic products that Japan exported to the United States last year.

Soviet Offering U.S. an Exchange: Nuclear Tests on Each Other's Soil

By MICHAEL R. GORDON
Special to The New York Times

WASHINGTON, April 17 — Soviet officials have suggested that the United States and the Soviet Union conduct a nuclear test on each other's territory to improve verification techniques, American officials said today.

The unusual proposal was made in Moscow this week to Secretary of State George P. Shultz by the Soviet Foreign Minister, Eduard A. Shevardnadze. It

tions in medium- and shorter-range nuclear missiles. The meetings ended in confusion over exactly what had been proposed.

The Soviet press agency Tass first reported that the Russians had proposed only to eliminate their shorter-range missiles in Europe. Mr. Shultz, however, later said the Russians had agreed to a global approach on their





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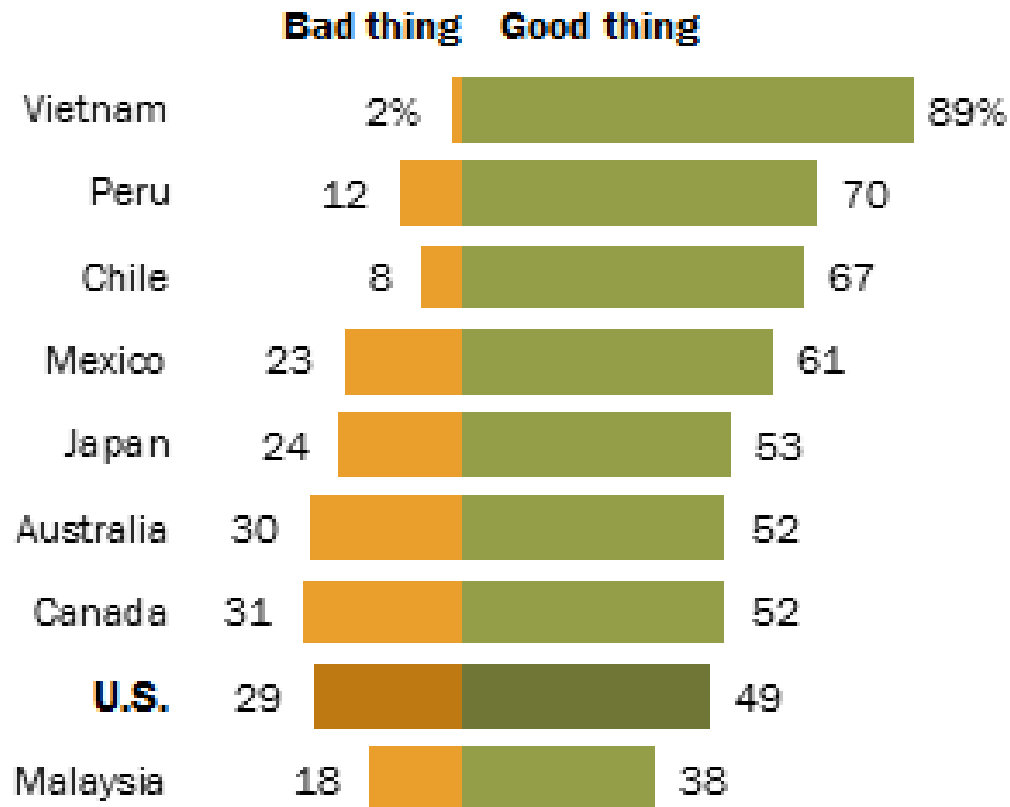


WTO OMC

WORLD TRADE ORGANIZATION
ORGANISATION MONDIALE DU COMMERCE
ORGANIZACIÓN MUNDIAL DEL COMERCIO

General Support for TPP

Would TPP be a good thing for our country or a bad thing?



Note: Data for volunteer categories "haven't heard enough" and "neither good nor bad" not shown.

Source: Spring 2015 Global Attitudes survey.

PEW RESEARCH CENTER