

## **Trump's Trade War\***

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After a year of huffing and puffing, President Donald Trump has launched, since January this year, what some are terming a trade war—fought in scattered industrial and selected locations. It started with quotas and tariffs on solar panel and washing machine imports, but then moved menacingly to steel and aluminium. Tariffs on these two products have been imposed under a WTO clause relating to imports that threaten national security, even while Trump's rhetoric refers to competition from "cheap metal that is subsidized by foreign countries", which amounts to a completely different 'dumping' charge.

With the tariff hike on steel at 25 per cent and that on aluminium 10 per cent the imposts are not trivial, though there are exemptions promised, subject to conditions, for Canada, Mexico, South Korea and some others. All this put together did not mean too much though. Reuters quotes Morgan Stanley as placing steel, aluminium, washing machines and solar panels together at a little more than 4 per cent of US imports. But then on 22 March, Trump announced trade sanctions on China, on the grounds that China was using unfair tactics such as hacking commercial secrets and demanding disclosure of "trade secrets" by US companies in return for access to the Chinese market. Those measures included investment restrictions and tariffs on Chinese exports valued at \$60 billion.

So, with Trump having begun the process to please labour unions and middle America upset over unemployment and poor quality jobs, it is not clear where he would go. The actions have triggered initial responses from Europe and China. The European Union, which exported \$6.2 billion worth of steel and \$1.1 billion of aluminium to the US in 2017, was the first off the block. The EU Trade Commissioner Cecilia Malmstrom promised to launch a complaint against the US action through the WTO's dispute processing channel, and simultaneously opt for safeguard tariffs for the EU which would now be threatened by exports from third countries diverted from the US because of the new impositions. In fact, the EU claims the steel and aluminium tariffs imposed by the US are in effect safeguard measures that are not warranted since US imports of these commodities have not been increasing in recent times.

China too has responded, even if more feebly. In a statement issued as April began, the Chinese government announced tariffs on 128 goods imported from the US, valued at \$3 billion, as against the \$60 billion of its exports that the anti-China US action has targeted. This included a 15 per cent tariff increase on American fruits and nuts and an additional 25 percent tariff on pork, recycled aluminium and other goods. Though this is a small amount of Chinese imports in value terms, the response is seen as a symbolic gesture that the country is not going to just "accept" the US action. The fear is that if this tit-for-tat process continues, what seems a show of bravado on the part of Trump may turn into an actual trade war. A similar tit-for-tat process precipitated by the Smoot-Hawley Act of 1930 of the US, which hiked tariffs on a large set of commodities, had a damaging impact on the volume of world trade and is seen as having contributed to the intensity of the Great Depression.

Trump himself contributes to this growing fear of a trade war. For example, he famously tweeted that: “When a country is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down \$100 billion with a certain country and they get cute, don’t trade anymore—we win big. It’s easy!” Such rhetoric has history. From the inception of his campaign for the post of President, Donald Trump had one core item on his agenda: To restore, with measures such as protection, the jobs that had been stolen from Americans—through migration and transfer abroad. The transfer to foreign locations occurred, he had argued, both because of the foolishness of previous governments that had given the jobs away and the manipulation of America’s trading partners, who exploited America’s generosity without offering anything in return. So, his campaign slogans promised to place “America First” to “Make America Great Again”.

“America First” is taken to mean American markets for American products, so as to create jobs in the US. But the first year of Trump’s Presidency delivered more rhetoric on this front rather than real action. Through choice of advisers and refusal to support the G20’s routine calls to “resist all forms of protectionism”, Trump fuelled fears of protectionism, but did not resort to it. He threatened to undo NAFTA and impose penal taxes on imports from countries that run large trade surpluses with the US but did not. In fact, US Treasury Secretary, Steven Mnuchin had declared: “We believe in free trade, we are one of the largest markets in the world, we are one of the largest trading partners in the world, trade has been good for us, it has been good for other people.”

If Trump turns his back on such conciliatory statements and persists with his new protectionism, he would be clearly adopting a strategy that is a major departure in the positions it has adopted since the Great Depression. That strategy amounts to giving up global leadership of a kind which promotes multilateralism as a means to ensuring a semblance of orderliness in world trading rules. In terms of policy speak, Trump is clearly against multilateralism, which he is convinced has not served America well. On coming to office, he walked out of the negotiations on a Trans-Pacific Partnership Agreement, that for long the US had backed. He promised to rewrite the rules embedded in the North American Free Trade Agreement (involving Mexico and Canada, besides the US). And he and his advisers have been making it clear that they think the World Trade Organisation (WTO) is biased against the US. If American interests have to be served, unilateral action against individual countries such as China, South Korea and Germany, which run trade surpluses with the US is what is needed.

America’s problem is real. The aggregate trade deficit of the US increased by close to 13 per cent to \$568.4 billion in 2017. Of that around \$375 billion was on account of the deficit between China and the US. Strangely, despite his aggression, Trump in one more of his tweets only called on China for “a plan for the year of a One Billion Dollar reduction in their massive Trade Deficit with the United States.” But China, is a major source of the US ‘problem’. And targeting steel and aluminium alone will not help that much. It supplies just 2.4 per cent of U.S. steel imports, which is way below the share of Canada (16.7 per cent), Brazil (13.2 per cent), and South Korea (9.7 per cent). That explains the decision to impose separate sanctions on China. Robert Lighthizer, the US Trade Representative made clear that addressing America’s ‘China

problem' will require going outside the multilateral route. "I don't believe that the WTO was set up to deal effectively for a country like China and their industrial policy. We have to use the tools we have and then I think we have to . . . find a responsible way to deal with the problem by creating some new tools," he reportedly said at his Senate confirmation hearing.

But such sanctions may not hurt China excessively, nor help reduce the US aggregate deficit. China can divert its exports to other markets, displacing rivals there. And China's place in US markets could be taken up by its rivals, rather than by producers located within the US tariff area. If the US seeks to prevent that, it, being the world's major importer, end up hurting many more countries than China or those that run a trade surplus with it. In fact, as the data on steel and aluminium imports suggest, among those hurt would be allies of the US such as Germany and South Korea. If the US chooses to protect domestic markets it, having lost economic leadership, would be giving up political leadership of the so-called "free world".

Meanwhile, the Trump administration is looking to frame its own mercantilist export policy, which will drive up exports and hold down imports so as to reduce its large trade deficit. But here it could learn from America's experience with the Plaza Accord in 1985. Through that Accord the US forced its then major source of imports and cause of its trade deficit, Japan, to appreciate its currency to strengthen the relative competitiveness of US vs Japanese producers. But a year after the Plaza Accord, yen appreciation, which adversely affected Japanese competitiveness, did not help the US reduce its deficit, because exporters from countries other than Japan found their foothold in the US market.

In sum, Trump protectionist actions, while not helping the US strengthen domestic producers and reduce its trade deficit, could set off a trade war that results as in the 1930s in a shrinkage of world trade. The Trump administration sees in protectionist actions a way of forcing a robust recovery from long years of stagnation. What it may actually get is an accentuation of the recession.

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