

Alden, Edward

Article

Trump: Reckless Free Trader or Genuine Protectionist?

Intereconomics

Suggested Citation: Alden, Edward (2018) : Trump: Reckless Free Trader or Genuine Protectionist?, Intereconomics, ISSN 1613-964X, Springer, Heidelberg, Vol. 53, Iss. 4, pp. 239-240, <https://doi.org/10.1007/s10272-018-0756-1>

This Version is available at:

<https://hdl.handle.net/10419/191192>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Trump: Reckless Free Trader or Genuine Protectionist?

When the Trump administration asked for comments on its proposal to slap tariffs on imported cars and car parts this month, it received more than 2 300 responses from companies, organizations and individuals. Of those, only a handful, including the union representing U.S. auto workers, was even mildly in favor. But there is only one opinion that will matter in the end – that of President Donald Trump himself.

The president's decision to launch an investigation into whether auto imports pose a threat to national security – which could lead to new tariffs on the largest single category of U.S. imports, worth more than \$350 billion annually – is potentially the biggest in a series of measures that are disrupting global trade. Since the beginning of 2018, the United States has slapped tariffs on imports of steel, aluminum, paper, solar panels, washing machines and a broad range of goods from China. His targets, including the European Union, Canada, Mexico and China, have retaliated against a range of U.S. products from soybeans to Kentucky bourbon.

More than 18 months into the administration, it has become painfully clear that the president was not bluffing when he told a small group of his closest White House advisors a year ago that “I want tariffs. Bring me some tariffs.” He reaffirmed that this week when he tweeted “Tariffs are the greatest! Either a country which has treated the United States unfairly on Trade negotiates a fair deal, or it gets hit with Tariffs.” The question that remains unanswered is whether Trump's tariff strategy is a tactical one, intended to wring concessions from China, Germany, Mexico and others, or whether it represents a genuine abandonment of the U.S. commitment to free trade that dates back to the mid-1930s. The answer will determine whether the Trump tariffs prove to be a minor skirmish, or trigger a major trade war that will rip apart the fabric of global trading rules.

Trump's actions on trade should not have been a surprise. They were clearly spelled out during his campaign, most notably in a June 2016 speech in the hollowed out steel town of Monessen, Pennsylvania, when he promised sanctions on China and said he would block steel and aluminum imports on national security grounds. Still, foreign diplomats and others could be forgiven for assuming that Trump would act like a normal politician and back away from campaign promises that were too controversial and disruptive to actually implement. Now that he has made it clear that he meant exactly what he said on trade, a different discussion has begun in Washington: are the tariffs merely a tactical move to force a greater opening of foreign markets, or are they an end in themselves? Is Trump, in other words, a somewhat reckless free trader or a genuine protectionist?

The consensus view is still the former. Robert Lighthizer, the U.S. trade representative, is a veteran of the U.S.-Japan trade battles of the 1980s and early 1990s, when the United States used the threat of tariffs as a tool for forcing open a closed Japanese market. In most cases, Japan agreed to modest measures without the U.S. having to pull the trigger. In one famous case, the U.S. imposed a 100% tariff on \$300 million worth of imported Japanese semiconductors, but then lifted the tariff after Japan agreed to purchase more U.S.-made semiconductors.

That approach enjoys some support, especially with regard to China. China flooded global markets after it joined the World Trade Organization (WTO) in 2001, using a variety of measures that flouted the spirit if not necessarily the letter of WTO rules – including currency manipulation, subsidies to favored industries, investment restrictions and violations of intellectual property rights. The United States was late in challenging many of these practices at the WTO,

Edward Alden, Council on Foreign Relations, Washington DC, USA.

leading to a widely shared conviction that the WTO rules were simply unable to constrain China. Lighthizer's more direct tactics have therefore enjoyed some support in the U.S. business community. New tariffs, this thinking goes, might be just the stick the United States needs to force market-opening changes among its trading partners. The temporary truce declared this week after Trump met with European Commission President Jean-Claude Juncker – with the two pledging to work to eliminate tariffs, subsidies and non-tariff barriers – is another sign that the president sees tariffs as a tactical way to gain negotiating leverage.

But there is a more troubling interpretation – that Trump is truly intent on unwinding global trade integration. Peter Navarro, the White House trade advisor, claimed in January 2017 that the president wanted to repatriate the international supply chains on which many big U.S. companies rely, encouraging or forcing them to source domestically instead. “It does the American economy no long-term good to only keep the big box factories where we are now assembling ‘American’ products that are composed primarily of foreign components. We need to manufacture those components in a robust domestic supply chain that will spur job and wage growth.”¹ At the time, the comment was dismissed as mere rambling by a low-level White House official, but Trump has actually pursued many of the policies that Navarro laid out – including cutting corporate taxes and weakening regulations to attract investment, and imposing new tariffs that may force companies to reshore production rather than face higher costs. Navarro's star has risen – he remains close to the president even as more conventional pro-trade advisors like Gary Cohn and Rex Tillerson have left the administration.

The “Trump as protectionist” story also explains other puzzling aspects of the administration's trade policy. Unlike the trade battles with Japan, the administration has not imposed huge, punitive tariffs – like the 100% tariff on \$6 billion in car imports that the Clinton administration threatened against Japan in 1994. Instead, it favors tariffs that could easily remain in place for a long time without massive market disruption – 25% on steel, ten percent on aluminum and the threat of another ten percent tariff on \$200 billion in Chinese imports. In addition, the administration has been vague about what it wants in exchange for removing the tariffs. Negotiations with China have been scant so far, the North American Free Trade Agreement (NAFTA) renegotiation with Canada and Mexico has stalled, and the steel and aluminum tariffs remain in place. If the point of the tariffs is negotiating leverage, then one would expect the administration to spell out its price for removing them.

So it looks increasingly like Trump's intention may in fact be what he has said – tariffs and more tariffs. And for the moment, there is little to stop him. The president enjoys a strong and healthy economy, and his supporters appear ready to give him room to carry out his trade strategy. Business and congressional opposition is growing as the effects of the tariffs are being felt around the country, but the pressure remains modest. At some point, Trump's support will wane – tariffs on autos in particular, which would raise the price of cars by thousands of dollars each, would certainly generate fierce public, business and congressional opposition. But again, there is no guarantee Trump will pay any attention.

If 2018 has taught Americans anything, it is that Donald Trump's provocative statements actually need to be taken seriously. In his dark inaugural address in January 2017, he lamented an “American carnage” of “rusted-out factories scattered like tombstones across the landscape of our nation.” Most were so taken aback by the language that they failed to pay attention to what followed. “We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength.” It has been nearly a century since any U.S. president believed that protectionism was the road to prosperity and strength. But the United States looks to be heading down that old road again.

¹ S. Donnan: U.S. trade chief seeks to reshore supply chain, Financial Times, 31 January 2017.