



When Opposites Attract

Donald Trump and Theresa May are very different, but they both have reasons to strike a deal on trade

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January 27, 2017

The contrast could not be starker. British Prime Minister Theresa May addressed the global elites of Davos last week promising to make Britain the standard bearer for a new era of free trade. She had her eyes set on ambitious new trade deals for Britain with old allies and new – with countries such as Australia, New Zealand, Brazil and China in her sights.

Just a day later, President Donald Trump's inaugural address claimed that for the U.S., "protection will lead to great prosperity and strength." One of his first acts in office was removal of the U.S. from negotiations surrounding the Trans-Pacific Partnership. His team has discussed renegotiating NAFTA and imposing punitive tariffs on China, whilst appointing a triumvirate of protectionists to key positions.

This no doubt confuses those who like grand narratives. After all, May will be the first foreign leader to visit the new president Friday and a U.S.-U.K. trade deal is on the agenda.

Despite attempts to conflate Trump and Brexit as part of the same anti-globalist tide, there was never any anti-free trade agenda in Britain's EU referendum. Both sides argued that their path would enhance trade the most: the Remainers believing that leaving the world's largest barrier-free trading block brought inevitable harm; the Leavers that new deals with faster growing nations and revising or abolishing the EU's dizzying array of 12,651 tariffs would bring significant gains for consumers.

This differs sharply with Trump's very mercantilist line – one that conflates "American workers" with "American producers," and ignores the fact that American families like buying cheap stuff too.

The cost of economic protectionism is well-known. Directly, it raises prices, and indirectly it distorts economic activity away from the most productive sectors. Contra Trump, it will be a disastrous path for the U.S. to take. For every new observable job that is created or saved by protectionism, there will be those lost through lower consumer purchasing power elsewhere. A Peterson Institute for International Economics study showed that President Barack Obama's 2009 tariffs on tires potentially saved 1,200 jobs directly, but with a cost of around \$900,000 per job given the \$1.1 billion paid in extra tire prices, and hence resulted in net job losses given less spending in other industries.

So much for the economics. Despite their ideological chasm, both Trump and May have a political interest in making a trade deal between their countries. It has even been suggested by some in the Trump administration that a deal could be agreed to within six months to a year (and hence practically agreed before the U.K. has actually left the EU – even though this technically goes against EU treaties).

Why do both parties appear so keen to come to the table?

Trump's agenda has promised to give voice to the forgotten – and by this he seems to mean particularly those working in manufacturing and the rust-belt areas of the U.S. His bogeyman for this group of workers tends to be cheap labor and foreign competition from emerging and middle-income countries. The U.K., just like the U.S., has seen steady declines in manufacturing as a proportion of the economy and as a share of employment (as indeed almost all countries do as they get richer). Opening up the U.S. to rich western U.K. manufacturers therefore does not seem a big "threat" to Trump's chosen workers of concern.

More positively, what better way to bring more free-trade Republicans on board for your broader trade agenda than negotiating a deal with a trusted Western ally (who Trump admires) with strong cultural bonds? It might even help spread American influence in devising the regulations of the future for high-end business services and finance.

Similar incentives push May towards a deal, because she is keen to show that Britain is making a success of Brexit. What more obvious opportunity to prove the country is open and global than to sign a deal with the most powerful country in the world, in turn cementing an important geopolitical relationship? Showing that bilateralism works smoothly would both vindicate Britain's decision to leave the EU and help Trump develop his doctrine away from big multi-country deals.

In so many ways, Trump and May could not be more different. Trump is brash, controversial and loose-lipped. May is considered, cautious and speaks only when she believes she has something significant to say. Their rhetoric on trade is diametrically opposite. But sometimes opposites attract. With the political aims aligning, a U.K.-U.S. free trade agreement is now a real possibility.

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