

# The Telegraph

## Trump may well have a point over trade but it doesn't mean he's right

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‘Well, he’s got a point.’ One hears that phrase a lot about President Trump. It explains his appeal. Highlighting self-evident truths others gloss over – that some illegal immigrants commit gruesome crimes, for example – he gives voice to fears usually left unsaid. Those who reactively deny it look stupid. Those who describe it in broader context? Well, “if you’re explaining, you’re losing”, as President Reagan once said.

Before and after the G7 summit, the President faced righteous criticism from international leaders for deciding not to renew exemptions for the EU, Canada and Mexico from his steel and aluminium tariffs. He responded by pointing out how heavily protected Canadian dairy and EU car markets are.

“We have put up with Trade Abuse for many decades – and that is long enough,” he tweeted. His tariffs, and consideration of extending them to cars were, he claimed, really a response to this protectionism. Ideally, all countries would eliminate tariff and non-tariff barriers, he mused. But in the absence of that, he just wants reciprocity and a level playing field.

Who can argue with that? It all sounds reasonable. And, importantly, he does have a point! Canada’s dairy market is heavily insulated, with a “supply management” system incorporating tariff rates of near 300pc on dairy imports beyond their quota of 10pc market share. The European Union does impose 10pc tariffs on imports of American cars while the US charges only 2.5pc the other way (though truck tariffs are higher in the US than EU).

Trump therefore gives voice to the US car and dairy industries who want more freedom to export. These facts also allow him to take the moral high ground, creating space for Republican free-traders to justify new US trade barriers as a short-term price to pay for a freer future global trading environment.

But should we really believe that is what Trump desires? There’s not much evidence to suggest so. Remember, his steel and aluminium tariffs have been legally justified on “national security” grounds, not tit-for-tat protection. Why Canada and the EU opening up their dairy and car markets would resolve national security concerns about importing steel and aluminium inputs from allies is anybody’s guess.

If Trump were actually concerned with reciprocity, he wouldn't cherry-pick individual sectors, but look at the bigger picture. This shows international tariffs have been falling worldwide over the past three decades as a result of painstaking multilateral negotiations and free trade deals.

According to World Bank data, the overall weighted mean applied tariff rate for the US and EU are near identical at 1.6pc, and even lower in Canada at 0.8pc. Mexico is higher at 4.4pc, but given this has tumbled from 15.5pc just 15 years ago, and many goods are traded tariff-free with the US due to Nafta, focusing on these countries seems an odd place to start to free up global markets.

True, the EU's variance in tariffs is higher, meaning it imposes much higher tariffs in certain areas. But if Trump really had free-trade ambitions, would he not also bring some protected US sectors to the bargaining table to trade-off for liberalisation elsewhere?

Why not the US sugar industry, where interventions, tariffs and quotas raise the American sugar price to almost double the world price, and significantly block imports from the Caribbean? Or how about reducing clothes tariffs, currently kept high so the US textiles sector gets leverage in US free trade agreements to insist other countries can export their clothes tariff-free only provided they use US inputs? No, Trump sees the vested interests in other countries as a problem, but domestically they are just fine.

This, I'm afraid, is the Trump trade world-view personified. His focus on economically-meaningless bilateral trade deficits, and on producers, rather than consumers, represents the "exports good, imports bad" mercantilist mindset. The President really does not see trade as mutually beneficial exchange, but a game played between nations where some win and others lose, depending on how much you sell and how much you buy as a country.

Perhaps the best insight that deep down his administration does not believe in the free trade ideal was his adviser Peter Navarro's recent defence of the tariffs. Rather dubiously, he claimed that they had already encouraged a new aluminium mill in Kentucky and restarted steelmaking facilities in Illinois.

But what was absent from his analysis was the real eye-opener, with no mention at all of the impact raising the steel price will have for the 6.5m workers in steel-consuming industries. Those looking for evidence the administration saw tariffs as a short-term necessary evil in Navarro's musings would be disappointed.

By and large, of course, the economic case for free trade applies whatever other countries decide to do. Tariffs harm domestic economies by generating investment-sapping uncertainty, raising prices for consumers, and undermining overall efficiency (by insulating producers from global competition and raising input costs). As damaging as it is to European steel and aluminium exporters to see new US tariffs then, the EU should not have reacted by jacking up tariffs on US products such as bourbon. This was a dumb move when Trump's priors suggest he would love any opportunity to ramp up tariffs in other areas.

Sadly though, politicians can't resist tit-for-tat retaliation to avoid looking bullied. Sure, Trump is the clear aggressor here. But faced with the opportunity to call his bluff and take him up on

eliminating more tariffs, EU and Canadian politicians seemingly lose the free trade mantras they eulogise and seek to act to protect their industries, not customers. Perhaps Trump has a point again that they aren't the free traders they claim to be. But acting on that point now threatens a wholly unnecessary, full-blown trade war.

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