The Washington Post

Trump's trade rhetoric, stuck in a time warp

Glenn Kessler

March 18, 2016

"We will keep the car industry in Michigan and we're going to bring car companies back to Michigan."

"They [Japan] have cars coming in by the millions and we sell practically nothing. When Japan thinks we mean it, they'll stop playing around with the yen. They're almost as good as China."

"When Ford builds a plant and then they sell a car with no tax whatsoever, just like we're foolish people, I want to say a stronger word, but I refuse to do so, but we are like foolish people."

"The devaluations of their currencies by China and Japan and many, many other countries, and we don't do it because we don't play the game."

"We don't win at trade, China, everybody, Japan, Mexico, Vietnam, India, name the country. Anybody we do business with beats us. We don't win at trade."

— Donald Trump, various statements on trade made in March 2016

When it comes to trade, Donald Trump is stuck in a time warp.

At the very least, he appears to have not been reading newspapers or economic magazines enough to understand that globalization has changed the face of the world economy, for good or bad. In an interconnected world, it's no longer a zero sum game in which jobs are either parked in the United States or overseas.

Normally, we focus just on a single statement to fact-check. In this case, we are going to look at the overall economic picture depicted by Trump — a world in which the United States never wins at trade and is flooded by imports because China and Japan keep their currencies artificially low, a world in which high tariffs would bring manufacturing back to Michigan and other states.

Does this world exist? (The Trump campaign, as usual, refused to acknowledge our inquiries.)

The facts

First of all, a trade deficit means that people in one country are buying more goods from another country than people in the second country are buying from the first country.

Trump frequently suggests the United States is "losing money" when there is a trade deficit, but that reflects a fundamental misunderstanding. Americans want to buy these products from overseas, either because of quality or price. If Trump sparked a trade war and tariffs were increased on Chinese goods, then it would raise the cost of those products to Americans. Perhaps that would reduce the purchases of those goods, and thus reduce the trade deficit, but that would not mean the United States would "gain" money that had been lost.

Trump did manage to name specific countries with which the United States has trade deficits, but he's wrong when he says the United States has a deficit with "everybody." There's barely a trade deficit with the United Kingdom,according to the International Trade Commission, and the United States has a trade surplus with Hong Kong ($30 billion), Netherlands ($24 billion), United Arab Emirates ($21 billion), Belgium ($15 billion), Australia ($14 billion), Singapore ($10 billion) and Brazil ($4 billion), among others.

Trade can lead to job losses — as well as job gains. A domestic widget-maker might lose market share, and cut staff, if lower-cost imports undercut prices. But exports also generate jobs, which is why U.S. presidents generally have sought to lower tariffs.

When speaking about the impact of trade deals, Trump (as in a USA Today opinion article) often cites research from labor-backed groups, such as the Economic Policy Institute, about supposed job losses from trade agreements. Interestingly, Bernie Sanders (Vt.), a candidate for the Democratic presidential nomination, often cites the same data — such as a claim that 800,000 jobs were lost because of the North American Free Trade Agreement.

First of all, we urge all readers to view such claims with deep skepticism. (Here's our take on one such study concerning the Korea Free Trade Agreement.) The job-loss figures often rely on simplistic formulas that are disputed by other economists. It is often difficult to separate out the impact of trade agreements on jobs, compared to other, broader economic trends. (Readers should also be wary of claims of job gains from trade deals, as we noted in this column on the Trans Pacific Partnership.)

Indeed, the Congressional Research Service in 2015 concluded the "net overall effect of NAFTA on the U.S. economy appears to have been relatively modest, primarily because trade with Canada and Mexico accounts for a small percentage of U.S. GDP." Donald Trump routinely described an economic reality that does not exist

(Complaints about the impact of trade with China may have more merit, given how huge the Chinese economy has become. There is evidence that the flood of Chinese imports, spurred in part because of a once-undervalued currency and Chinese government incentives, has cost jobs and reduced wages, at least in the short term. The aftershocks of China's entry into the world economy still reverberate, but they appear to be waning as China's relatively low wages have begun to rise, making it less competitive.)

Here's why Trump's vision is out of date.

As a result of NAFTA, the United States, Canada and Mexico constitute an economically integrated market, especially for the auto industry. Auto parts and vehicles produced in each country freely flow over the borders, without tariffs or other restrictions, as thousands of part suppliers serve the automakers that build the vehicles. This is known as the "motor vehicle supply chain." In fact, the prospective Ford plant that Trump complains about appears to be intended to produce cars for export from Mexico — and thus would free up production to produce more trucks in the United States.

Mexico has signed nearly 50 free-trade agreements, and so much of the new auto production there is coming from Asia and Europe, not the United States, said Guido Vildozo, Latin America sales forecaster for IHS Automotive. "When Asian and European OEMs [original equipment manufacturers] were looking at growing in the Americas to hedge against their own currencies, they decided Mexico was the way to go given the free-trade agreements the country has and the know-how they have on building smaller vehicles — whereas the U.S. has always focused more on higher added value vehicles and trucks," he said.

Vildozo added that, unlike Mexico, the United States cannot export to many South American countries duty free because it does not have the same free-trade agreements.

Meanwhile, Japanese (and European) auto manufacturers also have opened factories across the United States, hiring Americans. Most have settled in the South, in right-to-work states, and that in turn has led to supplier parks beings established nearby. Trump's promise that he was going to bring car companies back to Michigan ignores the fact that Michigan has been losing the auto industry to other states, not countries, because of its union traditions. "Michigan would have to pull up its socks in a big way," said Gary Hufbauer, senior fellow at the Peterson Institute for International Economics. "You might be able to bring some auto production back to the United States but not necessarily to Michigan."

Auto production by Japanese brands in the United States topped a record 3.8 million in 2014, according to Japan Automobile Manufacturers Assn. Japanese automakers also made more than 4.3 million engines and purchased a high of $66 billion in U.S. automotive parts. Honda, in fact, for the first time exported more U.S.-made models than it imported from Japan. However, about one-fourth of all auto parts used in the United States — especially electronics, which are lighter and more easily shipped—continue to be imported from Asia or Europe, according to CRS.

Dean Baker, co-director of the Center for Economic and Policy Research, notes that Japanese manufacturers first located in the United States to get around the "voluntary" export restraints put in place under President Ronald Reagan. He said that because the U.S. car market is so large, "if you imposed barriers that made it more expensive for them to import parts rather than produce them here, they will produce more of their car parts in the United States." But he says this was would not necessarily be a good thing to do — and the 35 percent tariffs suggested by Trump would violate trade agreements, leading to penalties and retaliation.

The manufacturing sector has declined as a source of jobs in the United States, but again Trump would be fighting against economic shifts long in the making. American manufacturing has becomes incredibly productive, so fewer workers are needed to make the same number of goods.

"In real terms, U.S. factories produced more output (looking at straight output or value added) last year than ever before in history," said Dan Ikenson, director of trade policy studies at the Cato Institute. "Year after year (with the exception of during recessions), the sector breaks new records with respect to output, revenues, exports, imports, return on investment." Yet at the same time, the number of manufacturing workers (12.3 million) is about the same level as in 1945, when the U.S. population was nearly 60 percent smaller.

Similarly, Trump's complaints about currency manipulation are woefully out of date. Fred Bergsten, senior fellow at the Peterson Institute, calls himself "a big hawk" on currency manipulation but says Trump is "way out of whack."

China has not manipulated its currency for at least two years and in recent months has been selling dollars and running down its reserves in an effort to keep the currency from weakening during an economic slowdown. Japan has not sought to lower its currency for at least a decade, with the exception of an intervention in March 2011 — a move that was supported by other leading economic powers because the yen had appreciated sharply in the wake of the devastating tsunami and earthquake.

In fact, there is evidence that some manufacturing jobs are already coming back to the United States, through a process known as "reshoring," because Chinese wages are no longer as competitive. General Electric in 2012 brought back nearly 4,000 jobs from China and Mexico, for instance. Marriott International said in March it would manufacture in the United States all of its towels for its hotels.

The Pinocchio Test

Trump's claims on trade, currency manipulation and manufacturing are either wrong or no longer valid. If he became president, he (and his supporters) would have a rude shock that the problems he complains about are overstated or no longer exist — and solutions such as raising tariffs might backfire. Taken together, his vision is a whopper.

Four Pinocchios