



Is Trump's Trade Policy Irrational or Rational and Misguided?

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President Trump's trade policy is misguided, but not irrational: his goal is to cut deals that make him look Herculaean.

President Trump set off another round of Twitter hyperventilation and financial market selling these past 18 hours with his latest threat to assess duties on another \$200 billion of Chinese imports. What's to make of this?

I see two (and only two) ways of looking at this. You can conclude that Trump is irrational, engaging in rhetoric and taking actions that are inconsistent with his goals, or you can see him as rational. You may not like his goals, but that doesn't make him irrational.

I see Trump as rational, but deeply misguided.

And he may be rational, but that doesn't mean he's not misguided. It seems to me, though, that if you think Trump's irrational, then there's not much use in trying to make heads or tails of the daily gyrations. There's no basis, really, for offering much in the way of useful analysis of U.S. trade policy for the next couple of years.

I see Trump as rational, but deeply misguided. His unpredictability is risky and frustrating, but it's also a staple of his governance. Unpredictability is the most predictable feature of this administration. But Trump's goal is consistent and predictable. Trump's goal is to cut deals that make him look Herculaean. The deals he most covets are those that cast him as fixing the trade problem with China and fixing the "worst trade deal ever negotiated," NAFTA.

I see the upside of Trump's approach as offering potentially smallish benefits, and the downside as severe and significant.

From the outset, Trump set his sights on "fixing" the U.S. bilateral trade deficit with China. Is that a worthwhile priority of trade policy? Absolutely not. But Trump is convinced that reducing the deficit is priority number one.

He sees his high-stakes engagement as worthwhile because he miscalculates the potential benefits and costs of his approach. I see the upside of Trump's approach as offering potentially smallish benefits (getting China to do something that may benefit U.S. exporters), and the

downside (a deleterious trade war that leaves the world in far worse shape) as severe and significant. My own approach would be far more risk-averse.

The Ongoing Drama with China (and Almost Everyone Else)

Trump wants the Chinese to buy more American goods and services. On its face, this is a reasonable desire for a U.S. president to have. But Trump wants the Chinese government to commit to purchasing more U.S. goods and services, somewhere in the neighborhood of \$100 billion to \$200 billion per year (which, of course, reinforces the fact that China's economy is centrally directed, which is the basis for the legitimate problems in the economic relationship in the first place).

Threatened tariffs of 25 percent on \$50 billion of imports from China, announced as result of a U.S. investigation into Chinese technology and IP practices, are Trump's initial leverage in getting the Chinese to commit to more purchases. Beijing's announced retaliation slightly negates that leverage, but then the administration cracked down on ZTE, the Chinese information and communications technology company that admittedly violated U.S. export control laws by selling certain products to Iran and North Korea, and was cut off from U.S. suppliers of semiconductors and other critical components.

Relenting on ZTE while continuing to treat Canada, Mexico, the EU, and other allies as national security threats isn't going to sit well with Congress either.

The on-again-off-again-on-again sanctions seem to be conditioned on whether and to what extent Beijing commits to purchasing U.S. exports, and that decision now seems to be conditioned upon Trump granting a reprieve to ZTE. Trump has already given ZTE a reprieve on paper (with certain conditions and requirements), but Congress seems to have strenuous objections and is considering an amendment to the defense authorization bill to prevent Trump's reprieve from taking effect.

Trump's latest threat to hit another \$200 billion of Chinese products with tariffs is just as much a threat to Congress as it is to China. Either the Chinese will relent and agree to purchase U.S. stuff (without need of reinstating ZTE) and the tariffs will be called off or Congress, fearing (more than Beijing does) a trade war that will take down U.S. manufacturing and agricultural interests and their representative in Washington, will relent on its legislative push to block ZTE.

Of course, relenting on ZTE while continuing to treat Canada, Mexico, the EU, and other allies as national security threats (especially since that designation has resulted in those countries applying tariffs to U.S. agricultural and manufacturing exports, too) isn't going to sit well with Congress either.

So, in order to fix these asymmetries and make Congress and U.S. allies whole (wholer, whole-ish): Congress abandons its legislation to block ZTE, which gets back in business (with conditions); the U.S.-China tariff war is called off; China signs purchasing orders for \$100 billion to \$200 billion of U.S. exports; the steel and aluminum tariffs on Canada, Mexico, and the EU are removed; and the NAFTA negotiations are restarted and concluded before the midterms. This gives Trump two major pyrrhic victories that will reinforce his greatness to his base.

Seems to me these are the only outcomes that could remotely explain (if not justify) the ride Trump is taking us on. I see it as misguided, but not irrational.

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