

Manufacturing Business Technology

Trump's Boasts Aside, Trade Wars Typically Leave No Victors

Paul Wiseman

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WASHINGTON (AP) — Trade wars generate no medals, monuments or military parades. But they do tend to leave a lot of economic wreckage, often hurt the very people they're meant to help and can fracture diplomatic relations among allies.

After announcing plans last week to slap taxes on imported aluminum and steel, President Donald Trump called trade wars "good" and breezily forecast an "easy" victory for the United States.

Economists see it rather differently. Starting a fight with trading partners has mostly proved to be self-defeating, they note.

"Usually, all sides lose in a trade war," says Douglas Irwin, a Dartmouth College economist and author of the just-published "Clashing Over Commerce: A History of U.S. Trade Policy." "Trade shrinks as countries pile on barriers in an effort to remedy some grievance, with consumers paying the price."

Wall Street clearly agrees. Stocks sank Thursday and Friday after Trump announced plans to slap tariffs of 25 percent on steel and 10 percent on aluminum imports, effectively threatening to wage commercial war on U.S. trading partners from Brasilia to Berlin to Beijing.

Shares of some of America's biggest exporters — Boeing, Deere, Caterpillar — fell hardest on fears that other countries would retaliate against U.S. products.

The term "trade war" is usually tossed around when countries spar over commerce, often without a clear sense of what it is. Eswar Prasad, professor of trade policy at Cornell University, defines it as a series of "escalating tit-for-tat trade barriers imposed on each other by two or more countries."

Edward Alden, senior fellow at the Council on Foreign Relations, says the world hasn't endured a full-blown trade war since the 1930s. But globally, war drums are beating again.

Europeans have threatened to retaliate against Trump's metals tariffs by targeting American blue jeans, bourbon and Harley-Davidson motorcycles. It may not be a coincidence that Harleys are produced in House Speaker Paul Ryan's Wisconsin and bourbon in Senate Majority Leader Mitch McConnell's Kentucky. Trump has met Europe's threat of retaliation with a piled-on threat of his own: To slap tariffs on European autos.

Prime Minister Justin Trudeau of Canada, which stands to suffer most from Trump's proposed steel and aluminum tariffs, warned that he was prepared to "defend Canadian industry" from the tariffs.

China has responded to earlier Trump-imposed trade sanctions — tariffs on imported solar panels and washing machines — by launching an anti-dumping investigation into U.S. sorghum exports, a move seen as a warning shot at American farmers who depend heavily on trade.

China, after all, consumes a third of the soybeans American farmers produce. John Heisdorffer, president of the American Soybean Association, warned that a Chinese retaliation to Trump's tariffs "would be devastating to U.S. soy growers. Our competitors in Brazil and Argentina are all too happy to pick up supplying the Chinese market."

Though full-blown trade wars are mostly destined to fail, countries can sometimes pressure their trading partners to change their ways, Alden says. With U.S. automakers reeling from Japanese competition in the 1980s, the Reagan administration strong-armed Japan into agreeing to "voluntary export restraints" on car shipments. Japanese automakers ended up moving factories to the United States to avoid the limits.

But shielding one domestic industry from foreign competition can hurt others by driving up prices. A study by NERA Economic Consulting found that a 7 percent aluminum tariff — less than what the administration is planning — would save 1,000 jobs annually in the aluminum industry but wipe out 22,600 other jobs across the U.S. economy.

In 2002, President George W. Bush imposed tariffs on Chinese steel. The move allowed U.S. steel producers to increase prices, raising costs for companies that buy steel and pressuring them to cut back elsewhere. But the tariffs are thought to have cost significant U.S. job losses.

Or consider the "Rubber Chicken" dispute of 2009. The Obama administration slapped tariffs on Chinese tires, charging that a surge in imports was hurting the U.S. tire industry. Beijing counterpunched: It imposed a tax of up to 105 percent on U.S. chicken feet — a throw-away item in the U.S. that's considered a delicacy in China. The Peterson Institute for International Economics calculated that the tariffs probably saved 1,200 American tire jobs — but consumers paid over \$900,000 in higher tire prices for each job saved.

To justify its proposed tariffs, the Trump administration invoked a section of U.S. law to declare that metals imports threatened America's industrial base and national security — even though the Pentagon says the military needs just 3 percent of U.S. aluminum and steel production.

The administration "stretches the definition of a national security threat to the breaking point," says Alden at the Council on Foreign Relations.

The World Trade Organization gives member countries leeway to protect their national security interests. But "there's always been a gentleman's agreement that you don't use (a national security pretext) just because you have an industry in trouble," says Kent Jones, an economist at Babson College. "This is extending the definition of national security for protectionist purposes and, believe me, there's going to be a big backlash."

Most analysts agree that the U.S. steel and aluminum industries have been hurt by overproduction in China, which has reduced global prices for the metals and made it difficult for U.S. producers to survive. But analysts say the United States should have teamed with Europeans and Japanese, who also are being harmed by China's oversupply, to pressure Beijing to curb its steel and aluminum output.

In a call Sunday with Trump, British Prime Minister Theresa May argued that "multilateral action was the only way to resolve the problem of global overcapacity" and expressed "deep concern" about Trump's tariff plan, according to the British Foreign Office.

"It seems like Trump was hell-bent on doing something more provocative," says Daniel Ikenson of the libertarian Cato Institute's Center for Trade Policy Studies.

China already faces barriers to the U.S. market. And it's only the United States' 11th-biggest steel importer. The biggest supplier of steel and aluminum to the United States? Canada, a steadfast ally.

It's unclear whether the Trump administration will exempt Canada or other allies from the tariffs. But in a television interview Sunday, White House trade adviser Peter Navarro appeared to reject the idea: "As soon as you exempt one country," he said, "then you have to exempt another country."

As Trump threatened to target European automakers, Marietje Schaake, a Dutch member of the European Parliament, tweeted that Europe doesn't want a trade war but "will be forced to respond to US protectionism. She noted that German automakers made 845,000 cars in the United States last year.

"The world is interconnected," she wrote, "not zero-sum."