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Trump tanks the markets with tariffs: Will he wreck international trade?

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President Trump took the first steps toward imposing tariffs on $60 billion in Chinese goods and limiting China's ability to invest in the U.S. technology industry Thursday, saying the moves were a response to Beijing's history of forcing U.S. companies to surrender their trade secrets to do business in China.

The president directed U.S. Trade Representative Robert E. Lighthizer to announce within 15 days a proposed list of products to be hit with tariff increases. After a public comment period, the final list, designed to target Chinese products that benefited from improper access to U.S. technology, will be made public.

Meanwhile, the president's aluminum and steel tariffs have become more symbolic than real. The Post reports that Lighthizer "told the Senate Finance Committee that the European Union, Argentina, Australia, Brazil and South Korea will not be hit by the tariffs, which take effect at 12:01 a.m. Friday. Trump already had exempted Canada and Mexico from the import levies for the duration of talks aimed at renegotiating the North American Free Trade Agreement." Given that top countries from which we import steel are Canada, Brazil, South Korea and Mexico, this makes the steel tariffs relatively meaningless. For aluminum, Canada and Mexico are in the top five exporters to the United States, but tariffs will presumably fall on countries as diverse as Germany, Argentina, India, the UAE and China.

The markets did not appreciate the news. "U.S. stocks fell for a second consecutive session Thursday, pulled down by shares of technology firms and banks, as investors worried whether a new round of tariffs would further fan the threat of a trade war," the Wall Street Journal reported. "Major indexes weakened throughout the day, with the Dow Jones Industrial Average falling more than 500 points at its lowest point before pairing some of that loss, putting the index, as well as the S&P 500 and Nasdaq Composite, on track for a second consecutive session of declines." *Update: The Dow Jones at close was down 700 points, largely on fears of a trade war.*

Protectionism can be popular in the short run. And Democrats such as Senate Minority Leader Charles E. Schumer (D-N.Y.) gave Trump a big thumbs up. He offered Trump a "big pat on the back . . . [for] doing the right thing when it comes to China." However, the long-term costs, as the stock market reflected, may be quite damaging. (Aside from trade retaliation, China will be even less inclined after this to offer help in containing North Korea.) Substantial pull-back in the markets may undercut one of Trump's favorite boasts (*Markets higher than under Obama*!) and, worse, may result in endless rounds of retaliatory action.

The Cato Institute's Daniel Ikenson explains:

Although allegations—and the evidence supporting those allegations—that China routinely transgresses in the realm of intellectual property have been accumulating for many years, it does not follow that the appropriate response is to restrict trade and investment. In fact, the collateral damage inflicted by those restrictions will be widespread.

President Trump's "remedies" are likely to raise production costs for U.S. businesses, diminish U.S. productivity, squeeze real household incomes, reduce the revenues of U.S. farmers and other export-dependent industries targeted by Chinese retaliation, exacerbate tensions with China and other countries adversely affected by the restrictions, and hasten the demise of the rules-based trading system.

Agriculture (that would be red states) is likely to get clobbered. "China is reportedly preparing to impose restrictions on U.S. soy exports and, almost certainly, other agricultural products will be targeted as well. "

What should we do? Ikenson recommends that the United States "use the evidence collected as the basis for a formal complaint at the World Trade Organization. In fact, that should have been done several years ago, but apparently U.S. multinationals were reluctant to go on record with evidence of those infractions for fear of suffering retribution from Beijing." The assumption that the WTO cannot or will not respond sufficiently is "at least, an untested one." He points out, "The United States has brought only 21 cases against China (but 116 overall), and China has a strong record of compliance when its practices have been found to violate the rules. By circumventing the WTO under the premise that its rules are inadequate to discipline China, and invoking a law that is incompatible with U.S. obligations under the WTO rules, President Trump has delivered a vote of no confidence in a system that has served U.S. interests well for 70 years."

As Trump tramples on the institutions and practices that have supported an international order and provided the United States and the globe with unprecedented prosperity, we should be clear who suffers: lower-income consumers, farmers and manufacturing workers (whose factories use Chinese tech products, steel and/or aluminum). In other words, Trump's base will fare the worst.