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# INVESTOR'S BUSINESS DAILY

## **Trump's Tough Talk On Apple Rings Hollow, But Rivals Don't Tout Trade**

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Donald Trump used his prime-time Super Tuesday victory stage to vow that Apple (AAPL) would make iPhones in the U.S., “not in China,” if he is elected.

He browbeat United Technologies (UTX)-unit Carrier and Mondelez (MDLZ)-unit Nabisco for moving hundreds of U.S. jobs to Mexico and Ford (F) for planning to double its production south of the border (though it continues to boost U.S. capacity too).

Suffice it to say that multinationals don't relish the prospect of a president who stands ready to use the bully pulpit to sully their brands any time they move or expand production offshore, but GOP primary voters seem to like the idea.

Trump's threats — to slap tariffs on Ford and United Tech's Carrier when they ship their products back into the U.S. and impose large tariffs on all imports from China for unfairly devaluing its currency — have dominated the debate. None of the candidates is talking up the case for free trade — the traditional stance of the GOP and most economists. The only thing that matters in this election is making the rules of trade more favorable to the U.S.

In that context, President Obama's Trans-Pacific Partnership trade deal — the biggest since Nafta — is too hot to touch and unlikely to get a vote before Election Day. Both Marco Rubio and Ted Cruz voted in favor of Trade Promotion Authority, allowing Obama to finalize terms of the deal with the assurance of an up-or-down vote in Congress without amendments. But Cruz has said he can't support the TPP in its current form and Rubio would rather talk about almost anything else.

## **A Bully's Pull**

At the Detroit debate on Thursday, Rubio tried to turn Trump's populism against him: "He can start tonight by announcing that all the Donald Trump clothing will no longer be made in China and in Mexico but will be made here in the United States."

Trump's uncomfortable response showed the limits of bad publicity, when business decisions are guided primarily by economics: "They devalue their currencies, and they make it impossible for clothing makers in this country to do clothing in this country."

Trump hit back at Rubio for his support of the TPP, which he called "a disaster for our country" because of currency devaluation.

Trump isn't likely to have any more success in getting Apple to make its iPhones in the U.S. than President Obama did, when he discussed it with Steve Jobs in 2011, due to the logistical and economic advantages of keeping the assembly in China.

## **Limits Of A President's Power**

What about slapping tariffs on Ford and Carrier when they ship products back to the U.S. from Mexico? Could that be a game-changer?

Only if Trump is prepared to risk tanking the American economy by canceling Nafta, says Scott Lincicome, international trade attorney and adjunct Cato Institute scholar. The trade agreement doesn't permit such tariffs, he notes.

Declaring China a currency manipulator to slap big tariffs on imports of Chinese products also looks far-fetched. First, Congress, which has rejected more-modest measures of this sort, would need to go along. If it did, such a tariff would almost surely run afoul of World Trade Organization rules, Lincicome says. Yet, if Trump were somehow successful, nothing good would likely come of it.

"All you would see is trade diversion," Lincicome said, with imports shifting to other low-cost producers like Vietnam.

If Chinese imports did face a big tariff — Trump has tossed around 45% — then prices would soar for low-income customers in the U.S.

What's remarkable about the state of the GOP debate is that it's happening even as China's central bank has been intervening in currency markets, deploying hundreds of billions of dollars to keep its currency from falling in value relative to the dollar. But the effort may fail. China is at risk of depleting its foreign reserves and economists are worried that the country will have no choice but to devalue by 10% or more to stave off a damaging outflow of capital.

U.S. exports fell in January to their lowest level since June 2011. Imports have fallen less, but also are at 2011 levels, as the weak global economy is a drag on trade.

### **Is The U.S. Really Losing Its Shirt?**

Despite the powerful economic evidence that trade is a net benefit to the U.S. and that much of the loss of manufacturing jobs is related to productivity gains, even solidly pro-trade folks will acknowledge that the complaints aren't much ado about nothing.

Of 5 million lost manufacturing jobs since 2000, Lincicome figures about 20% were trade-related, meaning the jobs were lost to other countries. In some industries such as apparel, where the number of factory jobs has plummeted by 80% in recent decades, the marketplace is clearly stacked against the U.S.

But a good portion of job losses stem from high corporate taxes in the U.S. and more-stringent regulation, he says. That's where all the GOP candidates are in agreement to a large extent.

Each of the candidates would cut the corporate tax rate, with Rubio slicing the current 35% rate to 25% and Trump slashing it to 15%.

At Thursday's debate, Cruz touted his proposed 16% business-tax plan, saying that the tax would apply to imports but exports would be "entirely tax-free."

"What that will do . . . is bring millions of manufacturing jobs back to this country, bring the steel industry back to this country, create an environment where when we compete on a fair and level playing field," Cruz said.