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## Trump's trade war collides with economic reality

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President Donald Trump is approaching an economic crossroads as he pushes closer to a full-scale trade war with China, even as warning signs flash that the U.S. economy is decelerating and growing increasingly vulnerable to a major shock.

Trump's trade battles are already slamming parts of the American economy, especially in Midwestern and farm belt states that helped propel him to the White House. Automakers like GM are cutting jobs, closing plants and complaining about billions in tariff-related costs. Soybean crops are rotting in fields with China's market now closed.

Dairy farmers hit by retaliatory charges are selling family businesses. And blue-chip American companies from Whirlpool to Caterpillar and Stanley Black & Decker Inc. have cited higher prices generated by Trump's tariffs.

As Trump prepares for a high-stakes meeting with Chinese President Xi Jinping at the Group of 20 summit in Buenos Aires on Saturday, economists are warning that a full-scale trade war with the world's second-largest economy could tip markets into panic mode. That could sap business and consumer confidence and further weaken the U.S. economy, presenting an existential risk to Trump's re-election prospects.

"A disaster meeting in Buenos Aires would be a complete breakdown in negotiations and that would result in big market losses," said Mohamed El-Erian, chief economic adviser at Allianz. "Tariffs are 'stagflationary.' That's why economists warn about them all the time. They lower growth and they raise inflation."

But Trump also has an opportunity for a "Reagan moment," El-Erian noted, by facing down the Chinese and winning some concessions on long-running American complaints about intellectual property theft, forced transfer of western technology and other barriers to U.S. firms doing business in the world's No. 2 economy.

If Trump's big bet proves correct — that Xi and the Chinese really don't want a trade war that will hurt them badly — he could wind up getting a deal and declaring victory much as he did after inking a new trade agreement with Canada and Mexico, even if the changes are mostly around the edges.

"Even a modest deal with China would give Trump an immediate victory, give markets a bounce and farmers would rejoice that their lives are not being totally ruined," said Scott Lincicome, a trade attorney and adjunct scholar at the free-market Cato Institute. "And Trump needs a pick-

me-up right now given that economic news is not that great and the dream of 4 percent GDP growth is pretty much off the table and even 3 percent is a real long shot.”

Trump signaled this week that failure to make progress with Xi could lead him to impose tariffs as high as 25 percent on everything that China exports to the United States, meaning significantly higher prices for manufacturers and anyone who uses a cell phone, laptop computer or scores of other consumer goods. The Consumer Technology Association estimates that 80 percent of U.S. cell phones and 92 percent of U.S. tablets and laptops are imported from China.

Trump’s more trade-friendly advisers including National Economic Council Director Larry Kudlow and Treasury Secretary Steven Mnuchin are fervently hoping for at least some progress in Buenos Aires even if the Xi meeting ends without any significant concessions from the Chinese.

Economic damage from Trump’s tariff battle with China — as well as levies on imported steel, aluminum, washing machines and solar panels — has already been piling up, especially in states that Trump carried in 2016.

Just this week, GM announced it would shutter several plants including a pair in Ohio and Michigan — critical Trump states that Democrats will target in 2020 — sparking a series of tirades in which the president blamed Federal Reserve Chairman Jerome Powell for the moves and threatened across-the-board auto tariffs.

GM said it would cut about 14,000 jobs, including 6,200 factory worker positions, though that number could decline during labor union negotiations and relocations. The company cited changing consumer demand for the cuts but has also said tariffs will reduce revenue by \$1 billion and would require aggressive cost-cutting. Costs are rising across the auto industry as a result of tariffs even as demand for new vehicles declines.

The pain is even more intense for farmers across the Upper Midwest. The Federal Reserve Bank of Minneapolis recently reported that farm bankruptcies are rising sharply in Wisconsin, Minnesota North Dakota, South Dakota and Montana following declining prices for soybeans, milk, beef and other farm products that face retaliatory tariffs from China, Mexico and other countries hit by Trump tariffs. The Chinese market is now essentially closed to U.S. soybeans, leading many farmers to simply let crops rot in the field.

Dairy farmers are having an even more difficult time, especially as retaliatory tariffs from Mexico close down a critical market for U.S. cheese exports. Mexico has said it will not remove the barriers until Trump removes steel and aluminum tariffs, something he did not do even after agreeing to the new U.S. Mexico Canada Agreement.

“The impact at the farm level is very real and declining prices are the difference between surviving and not surviving,” said Rick Naerebout, CEO of the Idaho Dairymen’s Association. “Dairy farmers are having to sell off their family businesses because they can’t make it. Tariffs are not the sole factor but they are a main factor. We’ve seen drops in cheese exports of up to 20 percent in some of the latest numbers that have come out. Those are big numbers and they are real numbers.”

So far, the impact of Trump's trade battles have mainly hit individual sectors like automakers and farmers. But if the president can't make a deal with Xi and decides to move ahead with tariffs on everything China exports to the United States, consumers would immediately start to feel the impact, economists say. Trump said in a recent interview with the Wall Street Journal that if China doesn't make a deal he will put tariffs on all Chinese imports of between 10 percent and 25 percent and suggested that he doesn't worry much about consumers paying higher prices.

"I can make it 10 percent and people could stand that very easily," he said. During the interview, Trump repeatedly referred to the tariff rate as an "interest rate" even though it is actually a tax paid by American consumers and manufacturers.

And many economists and industry groups do not share the president's view that a tax on all Chinese imports would have such a limited impact on the American economy.

"While the additional U.S. tariffs would create headwinds for both the U.S. and Chinese economies ... U.S. households would bear the burden as demand shifts away from Chinese products and prices increase on a range of items," Elana Duggar, associate managing director at Moody's Investors Service, said in statement on Wednesday.

In a research note, the pro-free trade group Tax Foundation estimated that 25 percent tariffs on all Chinese exports to the U.S. would cost the American economy around 290,000 jobs over the long term.

The rising toll of existing tariffs and the threats that come with an escalation of a trade war with China have trade observers and some White House officials fairly confident that Trump will make whatever deal he can. The president, after all, loves to trumpet the rising stock market and does not want to run for re-election in a sagging economy.

But there is also widespread concern that Trump's firm belief in the effectiveness of tariffs and his highly unpredictable nature in high-stakes encounters like the Xi meeting could push the U.S. to the brink of full-scale trade war.

"The fact is that nobody knows what is going to happen in Buenos Aires, not even Trump," said Lincicome. "A lot of it will depend on what Xi brings to the table and some of it could depend on what Trump had for breakfast that morning."