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Is President Trump about to start a trade war?

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The first year of the Trump administration's foreign policy has been a tale of Trump saying one thing and his administration's strategy documents saying something else entirely. Trump repeatedly articulates his worldview of populist nationalism. Some of his hired men echo his argot of vulgar realism. As previously noted, however, his National Security Strategy sounds almost Straussian in its subversion of "America First." If one looks at administration actions while muting Trump's Twitter feed, one can kinda sorta see a poor man's version of liberal internationalism.

The same thing has been true of Trump's foreign economic policy. Trump has deeply held views on this topic. His withdrawal from the Trans-Pacific Partnership, call to renegotiate the North American Free Trade Agreement, exaggeration of the trade deficit and disdain for the multilateral trading system have made his mercantilism clear. At the same time, NAFTA has not been renegotiated. Trump's threats to withdraw from it have proved hollow. Both the president and his Treasury secretary have even made noises about joining TPP.

Furthermore, the administration's economic documents, much like its strategy documents, seem to contradict the president. The Cato Institute's Scott Lincicome unleashed an epic tweetstorm last week documenting the myriad ways the 2018 Economic Report of the President subverts Trump's trade rhetoric. Here are some sample quotes from the report that the president would hate if he had bothered to read them:

- "Historically, international trade as a whole has on net increased American productivity, standards of living, and American economic growth."
- "Consumers — and disproportionately, low-income consumers — may benefit as import competition fosters innovation and product differentiation, as well as drives down the prices of goods and services."

- "Fiscal and monetary policies may be more important than trade policies in determining the magnitude of trade balances. The distribution of trade balances across trading partners is attributable to a variety of factors that are idiosyncratic to individual countries."
- "Although trade agreements are associated with about twice as much overall trade, the causal impact on the trade balance is unclear."
- "The United States gets better outcomes via formal WTO adjudication than negotiation, increasing the probability that the complaint will be resolved and decreasing the time it takes to remove the barrier in question."
- "The United States has exercised leadership in pursuit of a policy of lowered trade barriers and increased market access. The gains from these actions have, as a whole, served to boost income in the U.S. as well as around the world."

So it would seem that trade is another area where the president's instincts have been stymied by the system.

And yet.

I am beginning to wonder if that is all about to change for the worse. For one thing, Politico's Andrew Restuccia reports that Trump's favorite mercantilist may be getting a promotion:

White House aides are strongly considering promoting [White House trade adviser Peter] Navarro to assistant to the president for trade policy. … The new title would ensure that he has a seat at the table at a pivotal moment for trade, and it would grant him access to the daily senior staff meeting.

One administration official said Trump, who likes Navarro and regularly inquires why he isn't in key meetings, ordered the change. Another person familiar with the issue said the move hasn't yet been finalized, but that Kelly has agreed to implement it. …

"The change in [Navarro's] stature is a sign that the promises the president made on trade and manufacturing are more likely to be implemented," said Mike Wessel, who knows Navarro and is a longtime commissioner on the U.S.-China Economic and Security Review Commission, a watchdog panel set up by Congress in 2000.

Navarro's promotion, if it goes through, could be pivotal. Axios's Jonathan Swan reports that the administration is close to making a decision on the steel and aluminum tariffs recommended by Secretary of Commerce Wilbur Ross:

Bloomberg scooped on Friday that Trump wants the Commerce Department to seek the harshest maximum tariffs on global steel imports: 24 percent.

I'm told that's accurate, but with one small tweak: Sources tell me the president has told confidants he actually wants a *25* percent global tariff on steel because it's a round number and sounds better. …

Also, an official with knowledge of the trade discussions told me the White House is preparing to impose tariffs on a [lot] — meaning, potentially hundreds — of Chinese products. They'll avoid going through the World Trade Organization — which Trump doesn't trust — and instead use *Section 301* of the Trade Act of 1974 to unilaterally retaliate against China for stealing Americans' intellectual property.

A former U.S. trade official told Swan, "This is how trade wars start," and that's certainly true. Any broad-based application of tariffs will trigger painful countermeasures from other countries. China has already responded to Trump's announced tariffs on solar panels and washing machines. The use of Section 301, rather than the WTO process, will further weaken the multilateral trade system and represent an inferior form of trade policy.

Chad Bown noted earlier this month that in past episodes such as this one, the trading system largely held. In the past, however, there was confidence that U.S. presidents were fundamentally committed to the multilateral trading system. No one feels that way about the current president.

Finally, Shawn Donnan of the Financial Times reports on some proposed reforms of the U.S. system that investigates the national security implications of foreign direct investment:

The Committee on Foreign Investment in the United States (CFIUS) is one of the most powerful — and enigmatic — regulators in the world. An inter-agency committee that brings together defence and intelligence staff with economic policymakers, it was created to vet inbound foreign investment for potential national security threats.

Yet reforms being pushed by President Donald Trump and contained in a bill now working its way through Congress would, if enacted, expand its workload from a few hundred transactions a year to potentially thousands. …

For the first time, the bill now under consideration would give CFIUS broad jurisdiction over major outbound investment by US companies, that since 1990 has been worth some $250bn, and the overseas ventures of US-based multinationals. And for that reason it has provoked a growing revolt from blue-chip American companies such as General Electric and IBM and a debate in Congress over how best to curtail Chinese pressure on US companies. …

"This is a radical change," says Rod Hunter, who oversaw CFIUS while on President George W Bush's National Security Council and is now a partner at law firm Baker McKenzie. "You would basically turn the US technology industry into a regulated industry. If there was ever a way to turn the US technology industry into [failed carmaker] British Leyland this is how you do it."

It is possible that none of these stories will pan out. The stories above also report that numerous Trump advisers oppose this kind of crude protectionism. These advisers have thwarted Navarro in the past. Clearly, a large swath of U.S. multinationals are mobilizing against any expansion of CFIUS jurisdiction. This could all prove to be as much a mirage as the threat to withdraw from NAFTA.

It should always be remembered that Trump does not understand most foreign policy. His staff members have succeeded in using stupid arguments to persuade him not to take precipitous action on trade. Still, trade is an area where the president had strong beliefs. I worry that while his advisers can delay his wishes on this subject, they cannot deny him. And then we will get to see whether the president really can end his team's civil war on trade and trigger an actual trade war in the global economy.

Even if Trump does not get what he wants in the short run, he has already succeeded in sabotaging American economic leadership. So I'll close with Adam Posen's sobering conclusion from the latest issue of Foreign Affairs.

If the United States continues its retreat from economic leadership, it will impose serious pain on the rest of the world — and on itself. Unless the Trump administration chooses to launch a fullblown trade war, the consequences will not come immediately. But a sustained U.S. withdrawal will inevitably make economic growth slower and less certain. The resulting disorder will make the economic well-being of people around the word more vulnerable to political predation and conflict than it has been in decades.

It almost does not matter if Trump launches a new trade war. The United States has already lost it.