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There are ‘nuggets of truth’ to what Trump says about trade

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President Trump has managed to enrage most of America's closest allies by hitting them with name-calling, Twitter outbursts and steep tariffs on their steel and aluminum. In the past 24 hours, he's escalated his hardball tactics even further, telling Canada and the European Union that if they don't reduce their trade barriers, he'll hit them with more tariffs.

“Why isn’t the European Union and Canada informing the public that for years they have used massive Trade Tariffs and non-monetary Trade Barriers against the U.S. Totally unfair to our farmers, workers & companies. Take down your tariffs & barriers or we will more than match you!” he tweeted.

Trump's confrontational behavior has left America's allies -- and many Republicans and Democrats at home -- aghast. But setting aside his approach and mannerisms, there's some truth to what he's saying.

The average tariff rates are virtually the same in the United States, Canada and the European Union, meaning most goods coming into these countries face low tariffs (under 5 percent), if any at all. But Trump is right that a few goods face high barriers to entry.

The World Trade Organization (WTO) tracks how many imports face tariffs of over 15 percent, and on this metric, the U.S. looks better than its peers. According to the WTO, 7.1 percent of Canadian imports face these high tariffs, 4.1 percent of imports to the E.U. face them and only 2.8 percent of imports to the United States get hit with high tariffs.

“There are tiny nuggets of truth in Trump's trade policy,” said Scott Lincicome, a trade lawyer and fellow at the Cato Institute, a libertarian think tank that advocates strongly free trade. “He has some good points. Unfortunately, his execution is lacking.”

Trump called out Canada on Twitter for its 170 percent tariff on milk, a steep penalty that has made it difficult for American dairy farmers to sell to Canada. For years, U.S. farmers got around this restriction by selling ultrafiltered milk, which is high in protein and fat and often used to make cheese and yogurt, to Canada since that wasn't subject to the tax.

But all of that changed in recent months after the Canadian government tweaked its laws, causing ultrafiltered milk sales from the U.S. to drop substantially. The Canadian government tightly controls the volume of dairy products in the country and the price of those products. That helps Canadian dairy farmers make more money, but it meant that ultrafiltered milk from the United States was cheaper. But then Canada dropped the price that its farmers receive for ultrafiltered milk below the global level, making it nearly impossible for U.S. product to compete anymore.

Agriculture has long been one of the thorniest issues in global trade. Historically, countries wanted to protect their food supplies and farmers proved a powerful political voice. In addition to Canada's restrictions on dairy imports, the European Union has over a 33 percent tariff on U.S. dairy products (in contrast, the U.S. tariff on E.U. dairy is only 17.5 percent). The E.U. also prevents most genetically-modified American crops from entering its borders.

Manufacturing has been another tense one. The E.U. currently has a 10 tariff on American auto imports, while the U.S. has only a 2.5 percent tariff on imported European cars, a point Trump makes often.

Countries also don't just use tariffs to block imports from coming in. As Chad Bown of the Peterson Institute for International Economics and Meredith Crowley of the University of Cambridge chronicled in a 2016 research paper, there's been an explosion of other trade barriers in recent years. These are things like quotas, lengthy inspections at the border, requiring additional documentation, subjecting imports to more safety requirements or subsidizing domestic goods to make them cheaper than imports. It's the quiet trade war.

Examples include the EU's “public health” restrictions on hormone-treated beef and GMO crops and various safety and environmental restrictions on cars. Canada also has tight limits on poultry and egg imports, and America has accused Canada of subsidizing its lumber industry.

Of course, the United States uses many of these tactics, too. Michael Strain of the American Enterprise Institute pointed out America has wildly high tariffs such a 350 percent tariff on smoking tobacco, 130 percent for peanuts and 99 percent on prepared groundnuts.

The U.S. also has quotas on sugar, meaning only so much sugar can enter before hefty tariffs kick in. Foreign companies have also complained about all the state and local regulations and the Buy American Act, which make it hard for foreign companies to bid on some government projects.

And when it comes to government subsidies, there's no better example than airplane companies. America's Boeing and Europe's Airbus both get some aid from their respective governments, but there's been a huge case at the WTO since 2004 over which one is worse. The latest WTO ruling was in America's favor, and Trump is now threatening sanctions.

The problem, according to my trade experts, is Trump's chief trade tactics are publicly berating other nations and putting up more trade barriers. He's even walked away from deals like the Transatlantic Trade and Investment Partnership (TTIP) between the U.S. and E.U. that were trying to bring down tariffs, and he's threatening to abandon NAFTA.

Unsurprisingly, Canada and the E.U. don't like Trump's tariffs, and they have announced they are retaliating by putting tariffs on some items U.S. companies sell in their countries. These nations are also actively signing free-trade agreements around the world, lowering barriers and extending markets for their goods while Trump engages in fights.

Trump might be calling for nations to tare down their trade walls, but so far, he's managed to get other countries to make the existing walls higher.

“Negotiating with a gun to someone’s head doesn’t usually work,” said Carlos Gutierrez, the former Commerce Secretary under President George W. Bush who now advises companies and foreign governments. “We're trying to improve trade, but the way it's being done is backfiring on U.S. companies and the U.S. economy.”