



## **President Trump's confused approach to trade is one giant contradiction**

Ryan Bourne

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President Trump's ideas on trade often seem paradoxical.

At the weekend G-7 summit, he floated both abolition of all tariffs worldwide and banning trade with certain countries entirely over the course of just 24 hours. His recent announcement of the removal of exemptions from steel and aluminum tariffs for the European Union, Canada and Mexico was justified on "national security" grounds. Yet reminded that these countries are military allies of the United States, the president retreated to suggesting the tariffs were retaliation for current EU and Canadian trade barriers to U.S. products.

Two theories of the president's approach are consistent with these interventions. The optimistic case for free traders says that Trump is threatening tariffs and using the presidential bully pulpit to try to open up highly protected foreign sectors, and ushering a new era of global free trade. The pessimistic case says the president and his close team are protectionists at heart, and use the veneer of arguments about reciprocity to cover up their true intentions.

Sadly, most available evidence now points toward the latter. Over the last three decades there has been a slow but steady liberalization of markets, with tariff rates among advanced economies falling, in large part due to painstaking multilateral negotiations and trade deals. According to World Bank data, the weighted mean applied tariff rate for the U.S. and EU are near identical at 1.6%, and even lower in Canada at 0.8%. Mexico is higher at 4.4%, but given this has tumbled from 15.5% just 15 years ago, and many goods are traded tariff-free with the U.S. due to Nafta, focusing on these countries seems an odd place to start if your aim is a freer global trading environment.

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That is not to say that there are not egregiously overprotected markets in the EU and Canada. All countries seem to have some well-organized vested interests who resist this pull toward open competition. President Trump is correct that the Canadian dairy sector uses a “supply management” system incorporating tariff rates of up to near 300% on dairy products for imports beyond quotas. These do raise prices for Canadian consumers and discourage importation of American produce. The European Union likewise imposes much higher tariffs on American car imports than vice versa (10% vs. 2.5%), though the U.S. imposes higher tariffs than the EU on trucks. The world as a whole would be better off if these restraints were gone entirely. But reversing the progress made because of unusually high tariffs in certain sectors is misguided.

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If the president were a free trader at heart, one might imagine he would celebrate the overall progress, and push to go further. He would practice what he preaches, taking on his own domestically protected sectors, as in sugar, where federal interventions, tariffs and production quotas raise the American sugar price to almost double the world price. At the very least, he would argue his steel and aluminum tariffs were merely a necessary evil to compel broader liberalization overseas.

Yet this is not the argument the president or his key advisers make. When it comes to the aluminum and steel tariffs, for example, Trump adviser Peter Navarro has claimed, rather dubiously, they have encouraged a new aluminum mill in Kentucky and restarted steelmaking facilities in Illinois. He appears indifferent or willing to ignore the impact raising the price of a key input will have for the 6.5 million workers in industries that consume steel, instead claiming they are “pro-worker”. This is not the line an administration would take if they saw steel and aluminum tariffs as a damaging short-term pill to swallow to compel a more liberal trading environment in future.

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Indeed, everything from Trump’s obsession with economically meaningless bilateral trade deficits, to his constant focus on producers, rather than consumers, suggests that “exports good, imports bad” represents Trump’s worldview. Rather than seeing free trade as a means of promoting mutually beneficial exchange between buyers and sellers, the president thinks of trade as a zero-sum game that sees nations “winning” if they export more than they import.

The danger with this thinking now is that nationalism begets nationalism. A world in which the U.S. president seeks to bully other countries to lower particular tariffs in certain areas but offers up no firm proposals to take on its own highly protected sectors is a world in which EU countries and Canada feel unfairly singled out, and retaliate in kind. Focusing on individual, politically sensitive foreign sectors (troublesome as they are) risks unwinding the true progress that has been made over many decades.

Economists will carefully explain to all sides that higher tariffs harm domestic economies by generating investment-detering uncertainty, raising prices for consumers, and undermining overall efficiency (as producers are insulated from global competition and face higher input prices). But the president seems indifferent to their protestations, instead offering his biggest contradiction of all: that tariffs will be good for the U.S. today, but that the abolition of tariffs will be good for the economy in future.

*Ryan Bourne occupies the R. Evan Scharf chair for the Public Understanding of Economics at the Centre for Economic Studies at the Cato Institute. Follow him on Twitter @MrRBourne.*