

Global Economic Intersection

The U.S. Starts A Trade War With Its Allies

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The temporary exemptions to the Section 232 tariffs on steel and aluminum granted to Canada, Mexico, and the European Union (EU) expire at midnight tonight, and the Trump administration has announced that it will now impose these tariffs. This action makes clear that in addition to flouting the rules-based trading system the United States itself established, the Trump administration makes no distinction between foes and allies.

Retaliatory Tariffs and Taxes

The EU announced its retaliation list earlier, with a 25 percent duty on 182 products. Today, Canada responded with an announcement that it would levy tariffs of its own, amounting to \$16.6 billion. That figure includes a list of 127 potential products for retaliation, from steel and aluminum to household products like yogourt, coffee, tomato ketchup, and toilet paper, which will face a 25 percent or 10 percent surtax.

Retaliation won't take place until July 1st, giving Canada some time to refine this list in the meantime. Mexico announced that it would also seek to impose equivalent measures on items such as steel, lamps, pork legs and shoulders, sausages and food preparations, apples, grapes, blueberries, and various cheeses, among others. Both countries have stated that their countermeasures would stay in place until the U.S. lifts its tariffs.

Prime Minister Justin Trudeau was firm in calling the 232 tariffs "unacceptable," going on to say that,

Canada will also challenge these illegal and counterproductive measures under NAFTA Chapter 20 and at the WTO. It is simply ridiculous to view any trade with Canada as a national security threat to the US and we will continue to stand up for Canadian workers and Canadian businesses.

Ridiculous is about right. It is also hard to see how the Trump administration would imagine any other type of response from its allies, whose patience they have surely tested. However, it's worth remembering that Trump's team appears to view reality through a rather distorted lens, and somehow thinks these tactics will produce results for the United States.

Trump Doesn't Understand How Trade Works

As a case in point, Commerce Secretary Wilbur Ross suggested that the imposition of tariffs should not prevent negotiations, citing China as an example. Surely, one would hope that the Commerce Secretary knows the difference between imposing tariffs on China as opposed to U.S. allies, but unfortunately, that does not seem to be the case. (As my colleagues and I have mentioned elsewhere, he doesn't even seem to know the meaning of reciprocity or comparative advantage).

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In fact, what this episode reveals, in addition to the last year of trade policy uncertainty, is that the United States can no longer be trusted to negotiate in good faith. While Trump might think that keeping people on their toes and wondering “will he” or “won't he” is somehow a viable strategy, this approach is likely to backfire in the long-run.

For one thing, imposing tariffs on Canada and Mexico while negotiations on a new North American Free Trade Agreement (NAFTA) are ongoing is reckless. The three countries seemed to be getting very close to a deal this month, but this action may serve to further intensify discord among them. If delivering a truly modernized NAFTA that can better serve the American people was his goal, this strategy will likely do the opposite. Furthermore, our transatlantic partners are even less likely entertain negotiations, especially if they are approached, as French President Emmanuel Macron stated in March, “with a gun to our heads.”

Yes, it's true that the impact of the tariffs - even if our closest allies do impose retaliatory measures - may not be felt throughout the entire economy, making it seem like raising tariffs is no big deal. However, the tariffs and the countermeasures will inflict wounds on consumers, businesses, and on specific U.S. exporters, and lead our closest trading partners to look elsewhere for the things they want to buy, and enter negotiations with countries that do so in good faith. “Art of the Deal”? More like “How to Lose Friends and Alienate People.”

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