

PubPol 201

Module 3: International Trade Policy

Class 5

Trade Policies under Trump

Class 5 Outline

Trade Policies under Trump

- Safeguards
- National Security
- China
- NAFTA
- WTO

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2

Trump's Trade Actions

These slides will list only actions actually completed. Most had plans and threats announced in the days and weeks beforehand:

See Bown and Kolb for much of this

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3

Trump's Trade Actions

- Jan 23, 2017: Trump pulls out of the TPP
 - TPP = Trans-Pacific Partnership = Free Trade Agreement among 12 countries
 - Including Japan, Canada, Mexico
 - NOT including China
 - (Other 11 countries later went ahead without US)

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4

Trump's Trade Actions

- Jan 23, 2017: Trump pulls out of the TPP
- Mar 31, 2017: Two Executive Orders
 - "Enhanced AD/CVD Collection & Enforcement Executive Order"
 - "Omnibus Report On Significant Trade Deficits"

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5

Trump's Trade Actions

- Jan 23, 2017: Trump pulls out of the TPP
- Mar 31, 2017: Two Executive Orders
- Apr 24, 2017: Tariffs on Canada Softwood Lumber
 - WTO-legal response to Canadian subsidies
 - Case had been initiated under Obama

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6

Trump's Trade Actions

- Jan 23, 2017: Trump pulls out of the TPP
- Mar 31, 2017: Two Executive Orders
- Apr 24, 2017: Tariffs on Canada Softwood Lumber
- May 18, 2017: NAFTA Renegotiation Begins
 - NAFTA = North American Free Trade Agreement among US, Canada, and Mexico
 - More on this below and next time

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7

Trump's Trade Actions

- Mar 31, 2017: Two Executive Orders
- Apr 24, 2017: Tariffs on Canada Softwood Lumber
- May 18, 2017: NAFTA Renegotiation Begins
- Oct 5, 2017: Talks to amend KORUS begin
 - KORUS = FTA of US and South Korea
 - In force since 2012

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8

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9

Trump's Trade Actions

- Apr 24, 2017: Tariffs on Canada Softwood Lumber
- May 18, 2017: NAFTA Renegotiation Begins
- Oct 5, 2017: Talks to amend KORUS begin
- Jan 22, 2018: Safeguard tariffs
 - 30% on solar panels
 - 50% on washing machines

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10

Safeguards

- WTO permits tariffs on imports that cause serious injury
- Trump used the following:
 - 30% on solar panels
 - 50% on washing machines (both declining over 3 or 4 years)
- Both were on exports of all countries
 - Reason: previous China-only tariffs had been evaded by moving production elsewhere

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11

Safeguards

- The recommendation came through normal channels from two US agencies
 - Law has been on the books for years, but was last used in 2002 by GW Bush
 - See Schlesinger & Ailworth
- President could have chosen not to use the recommended tariffs
- Many thought the solar panel tariffs would cost more jobs than it saved

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12

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13

Trump's Trade Actions

- May 18, 2017: NAFTA Renegotiation Begins
- Oct 5, 2017: Talks to amend KORUS begin
- Jan 22, 2018: Safeguard tariffs
- Mar 1, 2018: Announces tariffs on steel and aluminum
 - 25% on steel, 10% on aluminum based on national security
 - Announced for all countries, some later postponed or exempted

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14

National Security

- Trump used Section 232 of US trade law to levy tariffs on imports of metals, based on national security
 - “Economic security is national security” (Trump Dec 18, 2017)
 - 25% on steel, 10% on aluminum
 - Mar 23: Tariffs start with some exemptions
 - EU, Canada, Mexico, S Korea exempted
 - Mar 28: Korea exemption made permanent in return for a quota cutting its exports to ~80% of 2017
 - Jun 1: Tariffs extended to EU, Canada, Mexico

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15

National Security

- Responses to metals tariffs
 - Retaliation
 - Apr 2: China imposes retaliatory tariffs on \$2.4 billion of US exports
 - Jun 22: EU imposes retaliatory tariffs on \$3.2 billion of US exports
 - Jul 1: Canada imposes retaliatory tariffs on \$12.8 billion of US exports
 - WTO disputes
 - May-Aug: Complaints filed against US by Canada, China, EU, India, Mexico, Norway, Russia, Switzerland, Turkey
 - Jul: Complaints filed by US against Canada, China, EU, Mexico, Russia, Turkey for their retaliation

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16

National Security

- Cars
 - In May 2018, the Commerce Department initiated another national security investigation: on imported cars
 - Trump said he's considering a 25% tariff on cars

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17

National Security

- Truce
 - Jul 25: Trump met with EU's Juncker, President of the European Commission (See Ward)
 - Agreed a “truce”: US-EU talks to lower tariffs
 - No more tariffs while talks are underway
 - EU will buy more soybean and gas from US
 - Aug 30: EU offered to cut auto tariffs to zero if US would do the same.
 - Trump's response:
 - “It's not good enough.”
 - “Their consumer habits are to buy their cars, not to buy our cars.”

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18

National Security

- Turkey
 - On Aug 10, Trump doubled the tariffs on Turkey's exports of steel and aluminum
 - Reason:
 - Turkey's currency had dropped by about 50%
 - This undermined the effect of the US tariffs

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19

National Security

- Issues to discuss:
 - How can imports endanger national security?
 - Does it matter whether exporters are friends or enemies?
 - Is there a better way than tariffs to handle this?
 - Is there a better way than retaliatory tariffs to respond to tariffs?

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20

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21

Trump's Trade Actions

- Oct 5, 2017: Talks to amend KORUS begin
- Jan 22, 2018: Safeguard tariffs
- Mar 1, 2018: Announces tariffs on steel and aluminum
- Jul 6, 2018: First tariffs on China, \$34 billion
 - On \$34 billion of China exports to US
 - Based on unfair trade practices in intellectual property (IP)

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22

China

- Concerns about China's IP practices pre-existed Trump
 - Theft of technology secrets
 - Forcing investors in China into joint ventures and sharing technology
- Prior to Trump complaints had been voiced by US and EU, but nothing had been done
- US initiated investigation under Section 301 of US trade law (unfair trade practices)
 - Aug 18, 2017: Investigation initiated
 - Mar 22, 2018: Report finds unfair trade and recommends tariffs
- Since then, Trump has announced and then implemented multiple rounds of tariffs

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23

Trump's Trade Actions

- Jan 22, 2018: Safeguard tariffs
- Mar 1, 2018: Announces tariffs on steel and aluminum
- Jul 6, 2018: First tariffs on China, \$34 billion
- Aug 23, 2018: Second tariffs on China, \$16 billion
- Sep 24, 2018: Third tariffs on China, \$200 billion

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24

China

- This is a “Trade War”: Tariffs and retaliation
 - US tariffs on \$34 billion Jul 6 were matched that day by China tariffs on \$34 billion of US exports
 - US tariffs on \$16 billion Aug 23 were matched that day by China tariffs on \$16 billion of US exports
 - US tariffs on \$200 billion Sep 24 were less-than-matched by China on \$60 billion of US exports
 - Trump has said he'll use tariffs on still more (\$267 billion), approaching all of China's exports to US

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25

China

- What's the point?
 - To get China to stop its IP practices?
 - If so, then there need to be talks
 - These would be more effective if done by US along with others, such as EU and Japan
 - If China were to promise change (they have), would we (Trump?) believe them?

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26

China

- What's the point?
 - To reduce the US bilateral trade deficit with China?
 - This could work, if US shifts its imports from China to other countries
 - It would not reduce the overall US trade deficit
 - And it would be very costly for US consumer and producer welfare

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27

China

- What's the point?
 - To stop China's rise as an economy and as a world power?
 - That's what some in China believe
 - There are some signs now that China's economy is suffering
 - Mitchell says China's currency and stock markets are suffering
 - More recent news mentions need to monetary and fiscal expansion to offset the harm

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28

Discussion Questions

- Do you agree with these objectives?
- If so, do you think the tariffs have been
 - An effective way to achieve them?
 - The best way to achieve them?

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29

Trade War – Who Wins?

- Who will “win” the trade war?
 - Nobody! Everybody loses from tariffs
 - Trump sees it “easy to win” because he measures success from trade deficit: If that falls, we win.

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30

Trade War – Who Wins?

- Reading by Legrain points out that US has much more to lose than Trump realizes
 - Much that we import from China
 - Is made from US inputs
 - Are inputs we need to be competitive
 - Tariff would cut China's exports by 0.05% of GDP, a "pin prick"
 - China has options beyond tariffs: regulations on US firms
 - China can target US vulnerabilities: aircraft and soybeans
 - By bypassing the WTO, Trump has yielded the "high ground" to China

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31

Trump's Trade Actions

- Jul 6, 2018: First tariffs on China, \$34 billion
- Aug 23, 2018: Second tariffs on China, \$16 billion
- Sep 24, 2018: Third tariffs on China, \$200 billion
- Sep 24, 2018: Amended KORUS signed
 - Raises Korea quota for US-certified cars
 - Extends years of US 25% tariff on light trucks

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32

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33

Trump's Trade Actions

- Aug 23, 2018: Second tariffs on China, \$16 billion
- Sep 24, 2018: Third tariffs on China, \$200 billion
- Sep 24, 2018: Amended KORUS signed
- Sep 30, 2018: USMCA agreed
 - NAFTA renegotiation had completed earlier with Mexico
 - Now Canada signed on, and name changed to USMCA
 - USMCA: U.S.-Mexico-Canada Trade Agreement

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34

NAFTA

- What is it?
 - North American Free Trade Agreement
 - Does many things but most important:
 - Zero tariffs on most trade between US, Canada, and Mexico
 - Rules of Origin (ROOs) to qualify for zero tariffs
 - History
 - Negotiated under George H. W. Bush 1992
 - Enacted under Bill Clinton, took effect 1994
 - We'll study it, and USMCA, more next time

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35

NAFTA

- NAFTA's Effects
 - Huge expansion of trade in North America
 - Resulting gains from trade, as we will study
 - Growth of supply chains in manufacturing
 - Some US loss of jobs to Mexico
 - Bad reputation among
 - US labor unions
 - Some politicians

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36

NAFTA

- NAFTA and Donald Trump
 - Trump opposed it even in 1993
 - “The Mexicans want it, and that doesn't sound good to me.”
 - As candidate for President, called it “The single worst trade deal ever approved in this country”
 - After he became President
 - Threatened to pull out of NAFTA
 - Initiated “Renegotiation”

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37

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38

World Trade Organization

- According to Barfield, Trump has said
 - “The WTO is designed by the rest of the world to screw the United States”
 - “We are going to renegotiate (the WTO agreement) or we are going to pull out”

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39

WTO Critiques

- Oct 25, 2017, on Fox interview with Lou Dobbs:
 - “We lose the lawsuits, almost all of the lawsuits ... within the WTO”
- In fact, like other countries, US
 - Wins most of the cases it brings
 - Loses most the cases brought against it
- Since 1995, in all cases complainant has won 90%
 - As complainant, US has won 91%
 - As respondent, US has lost 89%
- But...US has been respondent much more than complainant

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40

World Trade Organization

- Trump's actions threaten the WTO
 - The legality in the WTO of his tariffs on metals and on China are questionable
 - He has provoked others to retaliate, also in violation of WTO commitments
 - In addition, he is blocking appointments to the WTO's “Appellate Body.” This will soon render it powerless in disputes.

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41

World Trade Organization

- Can Trump pull out of the WTO?
 - Probably not. Congress would have to change legislation
- But Trump can undermine the WTO
 - By refusing to allow the appointment of new judges on Appellate Body
 - By claiming decisions are invalid
 - By not engaging in WTO negotiations
 - By ignoring its rules

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42

Discussion Question

- Why do you think Trump is so opposed to the WTO?