

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

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

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)
 - Australia just (Oct 31) became 6th to ratify it
 - It will enter into force Dec 30

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”

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

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

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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Trump's Trade Actions

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

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

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

Clicker Question

Who objected to the safeguard tariffs?

- a) Some Democrats
- ✓ b) Some Republicans Because they are traditionally free traders, per Schlesinger & Ailworth,
- c) US producers of washing machines
- d) US producers of solar panels
- e) The United States Trade Representative

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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

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

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

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

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 soybeans 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.”

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

Clicker Question

Why was the US willing to permanently exempt South Korea from the tariffs on steel and aluminum?

- a) The US-Korea FTA prohibited tariffs
- b) South Korea helps the US defend against North Korea
- c) South Korea helps the US defend against China
- ✓ d) South Korea committed to reduce its exports
- e) South Korea does not produce steel or aluminum

Clicker Question

In the “truce” between Trump and the EU’s Juncker, the US gets greater sales of soybeans and natural gas to the EU. What does the EU get greater sales of?

- a) Cars
 - b) Cheese
 - c) Wine
 - d) Industrial machines
 - ✓ e) Nothing
- Trump promised not to raise tariffs on cars against them during the negotiations, but not to buy more of anything.

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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Trump's Trade Actions

- Oct 5, 2017: Talks to amend KORUS begin
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- 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)

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

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

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

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?
 - Xi and Trump will meet at G20 that starts Nov 30 in Buenos Aires

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

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

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?

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.

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

Clicker Question

What was the justification in US law for the tariffs on China?

- a) China's trade surplus with the US
- ✓ b) China's theft and expropriation of technology
- c) China's tariffs on US exports
- d) China's violations of human rights
- e) China's purchases of US businesses

Clicker Question

Which is a reason why ~~Legrain~~ ^{US will lose from} ~~thinks China~~ ~~will win~~ the trade war?

- a) Exports that would fall due to US tariff would be a “pin prick”
- b) US tariffs on imports are also on US exported inputs
- c) US tariffs will make some US industries less competitive
- d) China’s government has options other than tariffs

✓ e) All of the above

I agree with these, but not that China will “win.” Both the US and China will lose.

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
 - (You dealt with this in section)

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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

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

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

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”

Clicker Question

When did NAFTA begin?

- a) 1948
- b) 1964
- c) 1982
- ✓ d) 1994
- e) 2006

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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”

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

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.

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

Clicker Question

How, according to Barfield, has Trump's advisor Peter Navarro suggested that the US should use its tariffs?

- a) Raise them to the maximum permitted by the WTO
- b) Promise to remove them completely on any country that will do the same in return
- ✓ c) Vary tariffs among US trading partners in what is called "conditional most-favored-nation"
- d) Use tariff revenue to replace revenue from the income tax
- e) Have the size of a tariff increase with the quantity of imports

Discussion Question

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