How *Trump* Views Trade

By James Pethokoukis

It's more than economics.

The American stock market rallied sharply after Donald Trump's election as the forty-fifth U.S. president. Trying to precisely explain short-term market movements is often a fool's game, of course. Still, many investors credited the outbreak of bullish behavior to the shock election result. Market participants were hopeful that candidate Trump had been both serious and literal when he repeatedly promised major fiscal stimulus—tax cuts and infrastructure spending—as well as a sweeping deregulatory push, particularly doing "a big number" on the Dodd-Frank financial reform law. Certainly with Republicans controlling the White House and Congress, Trump has the means to make turn his campaign agenda into political reality.

But as one investor saw it, the market rally reflected an attitude shift that was about more than any particular policy idea or set of ideas. It was the philosophical underpinning of Trumponomics that mattered most. As hedge fund operator Ray Dalio wrote in December:

> *This new administration hates weak, unproductive, socialist people and policies, and it admires strong, can-do, profit makers. It wants to, and probably will, shift the environment from one that makes profit makers villains with limited power to one that makes them heroes with significant power. This particular shift by the Trump administration could have a much bigger impact on the U.S. economy than one would calculate on the basis of changes in tax and spending policies alone because it could ignite animal spirits and attract productive capital.*

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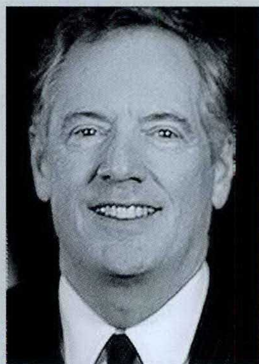
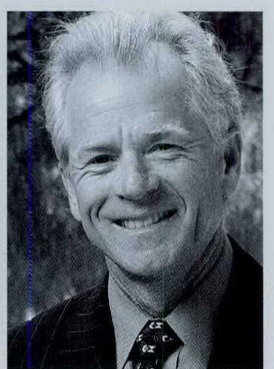
Dalio then outlined how Team Trump might spark a "virtuous circle of investment," finally concluding with a deep dive into the pro-business ideology of the new administration. Only as an afterthought did Dalio briefly mention trade, adding that it was "worth keeping in mind that Trump's stated ideology differs from traditional Republicans in a number of ways, most notably on issues related to free trade and protectionism."

Trump's Big Three on Trade

Wilbur Ross, *confirmed as U.S. Secretary of Commerce, whom* The Economist *nicknamed "Mr. Protectionism."*



Robert Lighthizer, *nominated for U.S. Trade Representative, who approved China's entry into the World Trade Organization.*



Peter Navarro, *director of the newly formed National Trade Council, who attacked China for currency manipulation and the production of dangerous products.*

Which, to be honest, is a sort of weird take—or at least an understated one. Trump's "stated ideology" on trade was not something that emerged in the final days of the campaign. It was a campaign mainstay from the time he descended the escalator in Trump Tower and announced his candidacy in June 2015. Most notably during the campaign Trump suggested imposing a 35 percent tariff on imports from Mexico and a 45 percent tariff on imports from China if they did not starting trading fairly. But trade warrior Trump is a persona that long predates the 2016 presidential campaign. For nearly his entire time as a public personality, Trump has continually identified dysfunctional and self-destructive U.S. trade policy as America's biggest economic policy problem.

For instance, speaking to chat show host Oprah Winfrey in 1988, Trump said if he were ever president, he would do the following:

> *I'd make our allies pay their fair share. We're a debtor nation. Something is going to happen over the x-number of years with this country because you can't keep going on losing $200 billion, and yet we let Japan come in and dump everything into our markets. It's not free trade. If you ever go to Japan right now and try to sell something, forget about it, Oprah, just forget about it. It's almost impossible. They don't have laws against it, they just make it impossible. They come over here, they sell their cars, their VCRs, they knock the hell out of companies. … They are beating the hell out of this country.*

Swap in China or Mexico for Japan, and the Trumpian tirade pretty much works today as it did back then. Yet if decades of anti-trade rhetoric and recent campaign promises were not enough to raise a red flag for Wall Street, Trump's personnel picks surely should. At the Commerce Department, there's billionaire investor Wilbur Ross, a trade hawk whom *The Economist* nicknamed "Mr. Protectionism." The nominated U.S. trade representative is Robert Lighthizer, a combative trade lawyer and former deputy U.S. trade representative under President Ronald Reagan who opposed China's admission into the World Trade Organization.

Then there's economist Peter Navarro, author of *Death by China: Confronting the Dragon—A Global Call to Action* (2011), a book attacking China for everything from currency manipulation to deadly consumer products. For Navarro, Trump created a new White House group for him to run, the National Trade Council, and formally installed him as assistant to the president and Director of Trade and Industrial Policy. When top Trump adviser Stephen Bannon spoke at a conservative gathering in late February, he outlined "economic nationalism"—as well as national security and "deconstruction of the administrative state"—as one of the administration's three key priorities. And Bannon named Ross, Lighthizer, and Navarro as the key players reconstructing America's global trade arrangements.

Early actions and comments from the Trump Administration have supported the idea that revamping U.S. trade policy and perhaps the global trading system sit at the core of the Trump economic agenda. In his first week in office, Trump signed an executive order abandoning U.S. participation in the twelve-nation Trans-Pacific Partnership and said the country would no longer participate in multinational trade deals. Another executive order declared his intent to renegotiate the

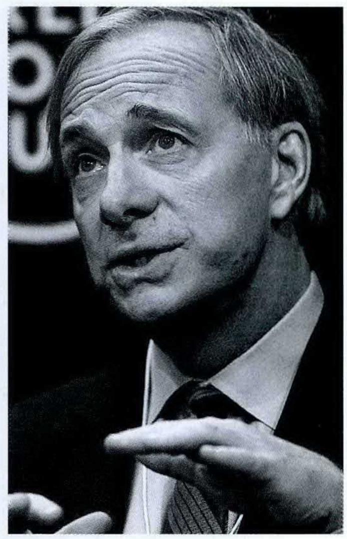
Trump and economic nationalist advisers see trade as about more than economics.

North American Free Trade Agreement. Trump also continues to hector American companies, often via his Twitter social network account, to either keep jobs in America or bring them back from overseas.

For all of Trump's bombast, Navarro may have already raised nearly as many eyebrows. Speaking with the *Financial Times,* Navarro said the Trump Administration wanted to unwind and repatriate international supply chains from overseas: "It does the American economy no long-term good to only keep the big box factories where we are now assembling 'American' products that are composed primarily of foreign components." So Apple iPhones and Boeing Dreamliners made in the USA? If so, this isn't just about trade reciprocity and reducing trade deficits but entirely reworking the global trading system.

But once the Trump administration is fully assembled and finds its sea legs, just how far will it go? To what extent and with what tools might it turn campaign rhetoric and promises into concrete policy? Such speculation begins with a consideration of presidential authority. And that authority might be far greater than what many analysts, particularly those on Wall Street, believe it is. In a deep analysis for the Peterson Institute for International Economics, economist Gary Clyde Hufbauer concludes that while Congress has the upper hand when it comes to liberalizing trade, "a president who wants to restrict trade enjoys almost *carte blanche* authority" thanks to nearly a century of congressional actions." Today, statutes enacted since World War II allow Trump to impose Smoot-Hawley–style tariffs without so much as a Congressional nod, he added.

Bridgewater Associates' **Ray Dalio:** *Trump might spark a* "virtuous circle of investment."



MORITZ HAGER, WORLD ECONOMIC FORUM/SWISS-IMAGE.CH

So Trump has a huge toolbox filled with trade instruments of varying shapes and sizes. How might he pick and choose? Let's take the case of China, perhaps the number-one villain in Trump's trade story. Among the smaller tools identified in a recent Goldman Sachs analysis might be antidumping measures or countervailing duties (tariffs applying to specific industries), or filing cases against China. These would be punitive measures but also in keeping with the actions of prior administrations. Also in this group would be declaring China a "currency manipulator" as Trump has threatened to do. Other measures might include restricting Chinese state companies from investing in the United States and penalizing the beneficiaries of stolen intellectual property.

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More substantial U.S. actions, Goldman adds, would include across-the-board tariffs on Chinese imports. One possible path, especially given Trump's self-regard as a negotiator extraordinaire, is to impose targeted tariffs for now, with more blanket actions held in reserve as a threat.

In Trump's 2000 book, *The America We Deserve,* written when he was considering a third-party

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presidential run, Trump wrote: "I would take personal charge of negotiations. Our trading partners would have to sit across the table from Donald Trump and I guarantee you the rip-off of the United States would end."

But negotiating with other national leaders, ones who must deal with political pressures at home, may be different than dealing with business creditors. Let's say talks with Mexico and China go poorly, or they seem successful but then trade deficits don't evaporate. What if Trump hits China and Mexico with steep tariffs, which those nations then counter? Again, Goldman Sachs sees such a scenario, thanks to less demand for U.S. exports—America exports more than $100 billion annually to China, $250 billion to Mexico—depressing GDP by around 0.7 percentage points by 2019 and "prompting the Federal Reserve to reduce interest rates, even if inflation was rising." So a sort of stagflation scenario.

It is also not hard to see how Trump trade actions

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could run afoul of the World Trade Organization. Tax actions could offer problems, too, if Trump signs a tax reform plan that includes the border adjustment provision favored by some congressional Republicans, including House Speaker Paul Ryan. A wide range of trading partners have in the past brought trade complaints against the United States, with the WTO occasionally authorizing retaliation or prompting the United States to change its policies. One Goldman scenario would have the United States implementing a 10 percent across-the-board tariff, larger than the effective U.S. tariff rate following 1930's Smoot-Hawley act.

The bank speculates such a move could result in authorized retaliation of nearly a half trillion dollars.

Facing penalties, it is also not hard to see how Trump might try and follow through on his campaign threats to withdraw from the WTO. Indeed, it might not even take something so dramatic as across-the-board tariffs. As my American Enterprise Institute colleague Claude Barfield recently noted, slapping tariffs on Mexico or China unilaterally, without going through some kind of trade remedy process, would violate our WTO most-favored-nation obligations. "If we lost the case—as we would—Trump could give notice of withdrawal as with any trade agreement. … Such a move would certainly shake the global economy because of the uncertainty and potentially chaotic aftermath."

But Trump might not care about such potential economic downsides. Trump and economic nationalist advisers see trade as about more than economics. Again, as Bannon has put it, "I think one of the most pivotal moments in modern American history was his immediate withdraw from TPP. That got us out of a trade deal and let our sovereignty come back to ourselves, the people."

So when trying to figure out what Trump will do on trade, economic modeling and legal analysis might suggest a cautious approach, but the bigger goal of Trumpism—changing America's place in the world—suggests taking Trump protectionism seriously and perhaps literally. ◆