

The new trade order: on the Trump administration launching its trade wars

Since the start of the year, U.S. President Donald Trump has lashed out at allies and adversaries alike on trade. Often, as with India, the U.S. has pushed for enhanced security cooperation at the same time it declared trade relations a national security threat. The belligerence has left many baffled.

Some pointers

A first question is why the Trump administration is launching its trade wars. There are at least three possible explanations worth considering: an actual *casus belli*, as with complaints about Chinese practices; a phantom *casus belli*, as in the preoccupation with meaningless bilateral trade deficits; or, finally, it might just be a straightforward desire to block trade.

The evidence seems to point to the last possibility — simple protectionism. While the U.S. has significant concerns about Chinese economic practices, such as China's aggressive approach to acquiring intellectual property from American businesses, the administration has been unable to focus its demands on these practices. When, a year ago, China offered a deal to address its steel overcapacity, Mr. Trump reportedly rejected the deal in favour of pursuing tariffs. Nor has the White House been able to prioritise among its global trade concerns. The discord with trading partners such as the European Union and Canada has undercut the possibility of presenting a united front on China complaints.

Further, the Trump administration's tariff justifications can shift rapidly. In May-June, the Trump administration extended steel and aluminium tariffs to Canada, among other countries. Ostensibly, the rationale was a threat to U.S. national security. Yet, at the G7 meetings later that month, Mr. Trump seemed to explain the aggressive U.S. stance by citing Canada's protective dairy regime.

There is ample evidence that Mr. Trump places a high priority on bilateral trade deficits, which he seems to equate with profit and loss statements. In May, hoping to assuage the President's concerns, Chinese Vice-Premier Liu He came to Washington to offer increased Chinese purchases of U.S. goods as a means of resolving the looming tariff threat. The Trump administration initially struck a deal, then reversed it roughly a week later. Countries with which the U.S. runs a trade surplus have also not been immune from trade attacks; Canada is a prime example.

This then leaves the simpler explanation that Mr. Trump is fond of tariffs and believes that American industry will do better behind a wall of protection. He has been neither coy nor inconsistent about such feelings. When he first announced his intention to apply steel and aluminium tariffs in March, his press secretary was asked about the surprise policy move. She replied, "This is something, frankly, the President has been talking about for decades."

Within the system

The U.S. prides itself, however, on its political system of checks and balances. Even with a protectionist President, how can one individual recraft a country's long-standing trade position so dramatically? The puzzle deepens when one looks at the U.S. Constitution, which assigns the power to apply tariffs to Congress. And where are international protections against capricious protectionism?

Domestically, Congress has tried to shift responsibility for trade on to the Executive Branch ever since it engaged in an ill-fated bout of protectionism in 1930. The underlying presumption was that individual members of Congress were more likely to succumb to protectionist pressures from their narrower constituencies, while the President was more likely to consider the broader national interest. Most domestic legislative safeguards, therefore, protected against a president being more liberal than Congress might desire; there are relatively few protections against a President who is more protectionist. Over the years, the legal authorisations for a President to apply protection accumulated, largely unused. Thus, the steel and aluminium tariffs were justified under an obscure provision of the Trade Expansion Act of 1962, a law granting national security powers from the midst of the Cold War. The upshot is that a protectionist President has ample tools at hand.

Turning to the global trading system, the burgeoning trade war demonstrates its limitations. The General Agreement on Tariffs and Trade and World Trade Organization were never designed to block a major world power from running amok. They relied, instead, on the principal players in global trade respecting the system. Trade disputes were anticipated, of course, but they were intended to be sincere cases of disagreement about rules and acceptable practices. The WTO Dispute Settlement Mechanism cannot act quickly enough to address the mounting spats about trade protectionism emanating from the U.S., a major reason why countries around the world have not waited for verdicts from their WTO complaints and have instead proceeded with retaliation.

What lies ahead

Finally, we can ask: what comes next for the global trading system? In the near term, we are likely to see escalation. U.S. tariffs on \$34 billion of imports from China took effect on July 6. China has promised equivalent retaliation. Mr. Trump has promised to retaliate against that retaliation.

The Trump administration also announced its intention to use its national security justification for tariffs on the auto sector. There are reports that Mr. Trump wants such tariffs in place before the U.S. mid-term elections in early November. While such a move would be qualitatively similar to the action against steel and aluminium trade, it would be quantitatively much more significant, given the magnitude of the autos trade. Europe has threatened retaliatory tariffs worth \$300 billion should the auto tariffs proceed.

There is little sign that Mr. Trump will be turned from his protectionist path by earnest explanations of the virtues of trade, though there have been valiant attempts both from the private sector and from members of Congress. If there is to be a change in the U.S. position, it is likely to come from an active reassertion of congressional authority over trade policy. At the moment, that still appears unlikely, but the pressures are mounting.

Even if the President has trumpeted his passion for protection for years, many in the U.S. assumed he was exaggerating. It is only in the last month or two that the effects of both protection and retaliation have begun to be felt. While some businesses have been helped, many more have been hurt. For example, while there are roughly 140,000 Americans who work in steel production, there are about 2 million who work in industries that use steel as a major input. Those latter industries are beginning to cry for help, along with farmers who are seeing sales lost to retaliatory barriers. Stories such as the relocation of production of Harley-Davidson motorcycles have called into question the President's claim that protection would revive American manufacturing.

All this has led to a deeply conflicted Republican Party, which holds a majority in both houses of the legislature. Traditionally, Republicans have been the more pro-business, pro-trade party and members of Congress running for re-election this November were planning to mount a campaign based on unity, tax cuts, and good stewardship of the economy.

Now those candidates need to decide whether or not to act against their President's trade measures. If they choose to, they have the power to legislate and block the President's trade belligerence, at the cost of enraging him. If they choose not to, they will likely disappoint their constituents. Their choice is likely to determine the next turn in Mr. Trump's trade war.

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