

# Trump *on* Trade

*Not as far out of the  
mainstream as you'd think.*

BY GREG MASTEL

**D**onald Trump succeeded in making international trade a front-burner campaign issue in a way no other candidate for president—certainly no Republican presidential candidate—in modern history has. Election exit polls suggest that Trump's supporters see trade as one of the issues that earns their support and the themes he strikes seem to have broad political appeal. His positions seem to have already shifted those of many other elected officials and in the coming months and years are likely to become—at least partially—reality.

At the same time, President-elect Trump's trade positions have been widely derided by the trade establishment. Both Democratic and Republican critics use terms such as “irresponsible” and “unrealistic” to attack Trump's trade positions. But are Trump's policies really so ill-conceived, or might there be some substantive as well as political merit to his positions?

## TRUMP TRADE POLICY

As is the case with the positions of many candidates, it is difficult at times to define precise policy prescriptions from campaign speeches. Trump trade positions are no different, but it does seem that there are at least four main themes that are repeated: 1) The entire trading system is broken; 2) New FTAs (particularly the Trans-Pacific Partnership) should be scrapped; 3) Existing FTAs (particularly NAFTA) should be abandoned or greatly altered; and 4) The relationship with China needs to be fundamentally rebuilt.

Actually, none of these positions is truly new or unique, but each deserves separate consideration.

## THE SYSTEM IS BROKEN

This complaint (in the trade context) be read as an indictment of what has come to be called globalization. There have been extremely thoughtful critics of the impact of globalization on U.S. wages and jobs. At least in part, the critics have been persuasive enough that the conventional wisdom has slowly shifted.

As a political talking point, though, it is not clear that trade agreements have created globalization. Certain events, like China joining the World Trade Organization in 2001, can probably fairly be portrayed as accelerating globalization. But so most certainly have improvements in technology—for example, the Internet—which most

---

*Greg Mastel is former Democratic Chief Economist/Chief Trade Adviser on the Senate Finance Committee. He is currently a Senior Adviser at Kelley, Drye & Warren.*

THE INTERNATIONAL  
ECONOMY

THE MAGAZINE OF INTERNATIONAL  
ECONOMIC POLICY

220 I Street, N.E., Suite 200

Washington, D.C. 20002

Phone: 202-861-0791

Fax: 202-861-0790

www.international-economy.com  
editor@international-economy.com

view as even bigger drivers of globalization. Even if there was a consensus to reverse globalization tomorrow, does that mean we would somehow scrap the Internet or withdraw from international commerce? Those remedies seem neither wise nor possible and smaller steps are likely to do little to address a decades old economic trend.

Focusing more specifically on trade agreements, over the years many critics (including this author) have mentioned that the current global trading system does pose certain inherent problems for the United States. The United States has a relatively liberal trade policy, operates through the rule of law, and governs through transparent processes. None of these things can be said of the second-largest participant in global trade—China. It is a fair question whether an open-market country really has the leverage to open a closed-market country. There is also strong evidence that China's proclivity for secrecy and lack of transparency makes it very difficult to police Chinese trade practices through quasi-judicial processes based upon transparency, which are at the heart of the World Trade Organization. China may be an extreme example, but similar arguments can be made about many trading partners.

Unfortunately, globalization and the international trading system are difficult to wish away. We are now almost seven decades into the global trading system and U.S. companies rely upon it to regulate global commerce. It is also an international organization based upon consensus and most other countries are not likely to support a U.S. effort to scrap it all and start again. Still, in the absence of alternatives, a good case can be made for strong action.

### NO NEW FTAS

The Trans-Pacific Partnership is the current focus of much of the anti-trade venom. That may be unfair because it has advantages over past trade agreements. For those who want to scrap the system, though—a list that includes many beyond Trump—there may simply be no appetite for another massive trade agreement. It is certainly possible that the TPP or something like it may be revived in the future, but for now the TPP seems to have no immediate prospects for approval.

---

*Much of his rhetoric generally  
accurately describes problems.*

---

## Fat China Target

In some ways, Trump's criticisms of China, such as currency manipulation, computer hacking, and intellectual property theft, are really close to consensus items now in the United States. Although it likely makes those analysts uncomfortable, Trump does seem to mostly accurately quote the work of well-known groups, such as the Economic Policy Institute and the Peterson Institute for International Economics, on China trade. At least large elements of his criticism of China on trade policy seemed to be shared not only by the 2016 Democratic nominee, Hillary Clinton, but also by President Obama and most members of Congress.

—G. Mastel



GAGE SKIDMORE

Donald Trump

### SCRAP EXISTING FTAS

This is one of the areas where Trump's vision is less clear. Certainly, NAFTA (really, free trade with Mexico rather than Canada) is a major focus of critics like Trump, as are to a lesser extent other FTAs like that with Korea. Free trade with Mexico seems the heart of the issue though rather than FTAs with say Israel or Chile.

NAFTA has now been in place for more than twenty years. It is clearly a central element in U.S.-Mexican commerce and it is relied upon by businesses on both sides of the Rio Grande. NAFTA has, in fact, spawned joint production in sectors such as automobiles. This does mean that some production jobs are in Mexico, but it also means that U.S. auto companies are more competitive with rivals overseas and may reduce incentives to completely move operations to China or India.

The core of NAFTA is the elimination of tariffs. If NAFTA were scrapped, the United States would apply pre-NAFTA tariffs to Mexico and Mexico would presumably do the same to U.S. products. But Mexican tariffs were two-and-one-half times higher than U.S. tariffs before NAFTA. Going back to facing higher tariffs does not seem a step in the right direction.

It often seems that critics of NAFTA are more focused on illegal immigration from Mexico and countries further south than on the flow of goods. Illegal immigration is certainly a valid concern and there are complex linkages between trade and immigration, but illegal immigration was a problem

*Continued on page 88*

*Continued from page 61*

before NAFTA. And if tearing up NAFTA caused Mexico's economy to decline (a likely consequence), that would likely increase the number of Mexican workers seeking to enter the United States illegally as jobs in Mexico disappear.

Like all trade agreements, NAFTA could be improved. It does not seem likely that Mexico will embrace this suggestion happily and renegotiation would be a two-way "negotiation" in which Mexico (and Canada) will have their own demands.

### CHINA

In some ways, Trump's criticisms of China, such as currency manipulation, computer hacking, and intellectual property theft, are really close to consensus items now in the United States. Although it likely makes those analysts uncomfortable, Trump does seem to mostly accurately quote the work of well-known groups, such as the Economic Policy Institute and the Peterson Institute for International Economics, on China trade. At least large elements of his criticism of China on trade policy seemed to be shared not only by the 2016 Democratic nominee, Hillary Clinton, but also by President Obama and most members of Congress.

Trump has several times pointed to trade agreements with China as the cause of the China trade problem. There are a number of bilateral understandings between the United States and China on issues such as intellectual property protection, but they are so limited in scope that it is difficult to describe them as contributing to the U.S.-China trade deficit. The "agreement" that can quite credibly be described as contributing importantly to U.S.-China trade problems is the 2001 agreement to allow China to join the World Trade Organization. WTO membership does guarantee China preferential tariff treatment by the United States and limits the ability of the United States to impose trade sanctions on China. Causality is complex, but China's WTO membership does correspond to a period of significant growth in the U.S. trade deficit with China.

### NAFTA Story

The core of NAFTA is the elimination of tariffs. If NAFTA were scrapped, the United States would apply pre-NAFTA tariffs to Mexico and Mexico would presumably do the same to U.S. products. But Mexican tariffs were two-and-one-half times higher than U.S. tariffs before NAFTA. Going back to facing higher tariffs does not seem a step in the right direction.

—G. Mastel

But the WTO is a multilateral agreement, not a forum in which the United States can dictate outcomes to China. The United States did negotiate a bilateral series of concessions on trade issues from China in return for allowing China to join the WTO. The United States could certainly

---

*Unfortunately, globalization*

*is difficult to wish away.*

---

have negotiated a better accession agreement with China, but that is now water more than sixteen years under the bridge. China is a WTO member, and if the United States were to ignore that fact and impose trade sanctions on China, China could quite likely bring the WTO to its side and win the right to impose sanctions on the United States.

If the United States tried to embark on a new tougher line with China, however, it is possible that it might succeed. The United States is still an immensely attractive market and that leverage could be brought to bear. Many of the countersteps that are warned of from China, such as not buying U.S. debt, would likely harm China more than the United States. Over the years, a number of political leaders have suggested a similar course. Though Trump's concept on dealing with China lacks detail, it seems similar to a proposal that then-Democratic House Majority Leader Richard Gephardt advanced in the 1980s to deal with countries with which the United States ran a significant trade deficit.

Getting tough is likely a policy that might prove difficult and potentially costly to implement; after all, someone in the United States does buy all those imports from China. At this point, Trump's ideas on China are still not well defined. They are really more political rhetoric than a policy. But they also are not much different than ideas advanced by a number of others. The difference is more one of volume level than substance.

Trump is outside the mainstream on some issues (perhaps proudly outside), but on trade—one of the areas in which he gained considerable political traction and that helped win him key Rust Belt support—his ideas are not as far outside the mainstream as some elite thinkers would suggest. Much of his rhetoric generally accurately describes problems, but the policy solution seems more a promise to be tougher than a path across what is certain to be a political and economic minefield. Turning election rhetoric on trade into reality will be a path that no other president has followed and a serious test for President Trump and his team. ◆