The Daily Dish

Trump and Trade — High Risk and High Reward?

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Over the weekend Senate Majority Leader Mitch McConnell (R-KY) said the Senate will use a simple majority vote to pass health care legislation. The Senate is expected to rework the plan which was passed by the House before voting on the bill. Senator Roy Blunt (R-MO) stated that the Senate will wait for the CBO score before moving on to a vote.

Last week Environmental Protection Agency (EPA) Administrator Scott Pruitt stated that the U.S. power grid still needs coal to maintain reliability. Pruitt went on to argue that the U.S. needs fuel diversity in case of a cyber attack, and that the U.S. should maintain coal as an energy source to act as a safeguard if an attack ever were to happen.

Eakinomics: Trump and Trade — High Risk and High Reward?

The post-war trade playbook was well-understood by western democracies: steadily, if incrementally, reduce barriers to trade and the scope of goods and services covered by trade agreements; focus on multilateral agreements that could also serve strategic purposes against the Soviet Union (then) and China (now); build acceptance of international dispute resolution mechanisms to enhance compliance; recognize the importance of trade agreements as a development strategy that can reduce global poverty; and — at all costs — avoid all out trade wars such as that which contributed to the Great Depression.

That is not the Trump playbook.

The Trump playbook began with exiting the Trans Pacific Partnership and declaring that trade agreements should be bilateral in nature. Kiss multilateralism goodbye, even when it is designed to constrain the rise of China. The next step is the decide to withdraw entirely from the North American Free Trade Agreement (NAFTA), only to be talked out of it at the last minute by his Cabinet secretaries, advisers, Congressional leaders, and

international counterparts. Withdrawal would certainly put gradualism in reverse — at a minimum — and flips the sign on helping less developed countries.

It was also potentially quite damaging to the U.S. economy. As CNBC notes there are 10 states for whom Canada and Mexico are the top destination for exports, and 7 voted for Trump:
1. Texas (voted for Trump), 2. California, 3. Michigan (voted for Trump), 4. Ohio (voted for Trump), 5. Illinois, 6. Indiana (voted for Trump), 7. New York, 8. Pennsylvania (voted for Trump),
9. Tennessee (voted for Trump), 10. Arizona (voted for Trump). The Chamber of Commerce makes a similar point, noting that there are 14 million jobs at stake in the production of exporters under NAFTA. The potential for self-inflicted wounds is obvious.

But the risks don't stop there. Even as President Trump was contemplating withdrawing from NAFTA, the U.S. announced it would be pursuing placing import duties on softwood lumber from Canada (which is simply the latest chapter in a long-running dispute). Is it any surprise that Canada has indicated that it "would study whether to stop U.S. firms from shipping thermal coal from ports in the Pacific province of British Columbia in response to the lumber duties." And, "Canada also is considering duties on exports from Oregon such as wine, flooring and plywood." U.S. Commerce Secretary Wilbur Ross immediately labeled these moves "inappropriate", but that's how tit-for-tat trade fights always appear in the moment.

How NAFTA plays out in the end is yet to be seen. More generally, whether the Trump strategy will succeed is an open question. But from the perspective of the traditional approach to trade, it is a route filled with high risks, and hopefully great reward.