The Daily Dish

# Tipping Point in the Trade War?

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**Eakinomics: Tipping Point in the Trade War?**

The Trump trade agenda has multiple fronts. The steel and aluminum tariffs are simply a bad idea, but are in and of themselves small potatoes. The renegotiation of the North American Free Trade Agreement (NAFTA) is unfinished business. A failure leading to withdrawal would be a catastrophic outcome, but a modernized NAFTA would represent a genuine step forward. The tariffs on China are a a potentially dangerous step, as they have already triggered Chinese retaliation and portend further escalation in the future. The trepidation of most observers over these tariffs is palpable, but everyone also recognizes that China is a bad actor in global trade that has not been swayed by past strategies. So some cling to hope that this conflict with China can work out for the improvement of all.

Then there is the idea of tariffs on cars. President Trump has proposed a 20 percent tariff on imported automobiles (and auto parts) in the interest of removing a threat to national security. This proposal is colossally misguided and, if enacted, would be a clear tipping point where the trade agenda threatened the growth of the economy.

There are three interrelated problems. The first is that there are essentially no genuinely “domestic” or “foreign” cars. Behind Jeep, the most American-made car in 2018 was manufactured by the Japanese company Honda. As *The Wall Street Journal* noted, “The trade dispute is likely to have a broader impact on the supply chain in the automotive industry. Even cars built in the U.S. contain a large number of components built elsewhere, and the same goes for cars built in Europe. The Trump administration, in an apparent effort to gain better access for U.S. products, is imposing or threatening tariffs not only against China, but also Europe, Mexico and Canada.” That means there would be widespread harm to consumers as auto prices get pushed up by hundreds or thousands of dollars.

Second, the scale of the retaliation would be enormous and widespread. China has already imposed 40 percent tariffs on U.S. cars in response to our current tariffs. The EU has threatened retaliation on nearly $300 billion of U.S. sales there (roughly one-fifth of U.S. exports). Japan has joined in warning of the damage inflicted by imposing car tariffs. Retaliation would also mean direct harm to U.S. workers. Many foreign firms — Honda, BMW, Mercedes-Benz, Volvo, and others — have long-standing production commitments in the U.S. The BMW plant in Spartanburg, SC, is the largest U.S. exporter (by value), and Japanese companies built 3.8 million cars in the United States last year.

Third, the national security justification is laughable. Countries would easily see through this attempt to obscure blatant protectionism. There would be little reason to hesitate to retaliate.

President Trump often points to EU tariffs of 10 percent on U.S. cars. But the United States has a 25 percent tariff on imported light trucks. If the goal is to reduce these impediments to trade, then the right strategy is to negotiate a “trade”: The EU drops its tariff, and the United States responds in kind. That is a positive strategy. Blowing up the global automotive industry’s supply chains, inflicting widespread consumer and worker pain in the United States, triggering a global trade war, and risking recession should be taken off the table.