The Daily Dish

What If a Trade War Broke Out and Nobody Noticed?

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Eakinomics: What If a Trade War Broke Out and Nobody Noticed?

The deterioration of trade relations feels like a daily event, with the most recent announcement being that Canada will impose tariffs on $13 billion of U.S. exports ("More than 40 US steel products attract tariffs of 25%. A tax of 10% has been levied on over 80 other American items including toffee, maple syrup, coffee beans and strawberry jam.") and China has pulled back from its "first strike" plan to beat the U.S. to the punch on imposing July 6 tariffs.

Taken as a whole, however, the evolution of tariffs has been incremental:

- In March, President Trump imposed a 25-percent tariff on imported steel and a 10-percent tariff on imported aluminum, but provided exemptions for Argentina, Australia, Brazil, Canada, Mexico, and the European Union.
- In April, China (not exempted) raised tariffs on 128 U.S. products by up to 25 percent.
- In April, the president responded with a threat of 25-percent tariffs on $50 billion in additional Chinese technology goods — ostensibly in reaction to intellectual property abuses.
- Immediately China threatened retaliation with its own 25-percent tariffs on $50 billion in U.S. goods.
- On June 1, Canada and Mexico were denied exemptions from the steel and aluminum tariffs.
- Nearly immediately Mexico imposed 20-percent tariffs on $3 billion in American goods.
- On June 18, President Trump threatened 10-percent tariffs on an additional $200 billion in Chinese goods.
- In late June, the European Commission said it would retaliate with tariffs on $3.2 billion in U.S. goods; President Trump responded with a threat of a 20-percent tariff on European automobiles.
- The European Commission threatened to impose tariffs on $294 billion in U.S. goods in response to the auto tariffs.
- And now Canada has retaliated against $12.5 billion of U.S. goods for the steel and aluminum tariffs.

A clear pattern has emerged. The Trump Administration threatens and/or imposes new tariffs. The affected trading partners (China, EU, Canada, Mexico) respond quickly and proportionately to the U.S. moves. No game of tariff "leapfrog" has emerged (yet) as each trading partner makes a point of displaying its displeasure but no more.

That doesn't mean that this is good trade policy — it simply is not. (Good trade policy would result in reduced tariffs and less government interference — there is no sign of that to date.) But it does mean that the worsening of trade policy and the diminishment of global growth is happening slowly and with relatively little drama in the data. It feels analogous to the old story of the frog being in the water as it is slowly heated. There is little drama for a long time, but it ends poorly for the frog.