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Jeffrey FRIEDEN

Marc Noland, you have the unenviable task of trying to explain to us the current state and future of American trade policy. Take it away.

Marcus NOLAND

Thank you. It is an honour to be here. In the interests of time, let me quickly tick off four challenges, three of which are interrelated, and I will focus on trade, as Jeff indicated. The first is exit from unconventional monetary policy, rising interest rates globally, are likely to set-off financial crises large and small. Olivier Blanchard and others on the programme will address this issue so I will just skip through that.

The next three are interrelated. The first is the rise of populist governments, which are often described as conservative or right-wing, but they are not classically liberal, and they tend to be highly interventionist. These micro-economic interventions create winners and losers. The losers demand compensation and that sets-off another set of interventions and so you get cascading interventions. The net effect will be to reduce long-run productivity and incomes, but the constituencies do not really seem to care about that. The Trump trade policy in this respect is an exemplar. Trump launched a trade war with China and the Chinese retaliated against American grain producers. The response of the US government has been to expand income supports for farmers and it is now contemplating increasing the requirement that ethanol in American gasoline rise from 10% to 15%, to increase demand for grain. In effect, the trade policy finds its echo in policies having to do with energy and transportation. Finally, the Trump trade policy can be seen as simply one component of a broader emerging cold war between the United States and China.

On trade policy, Donald Trump is a protectionist. He has protectionist views going back to the 1980s. He ran on a protectionist platform and while there is some uncertainty about the administration's goals and how far it is willing to push confrontational tactics in their pursuit, I do not think there can really be an argument about the overall thrust of that policy. The goals are reducing trade deficits, both globally and bilaterally, renegotiating or abrogating "disastrous" trade agreements, and rebuilding the manufacturing base by tearing up global supply chains and bringing production back to the United States. The tools are aggressive use of US anti-dumping and countervailing unfair trade practices statutes and particularly concerning, the use of national security statute 232, with a focus on China. The use of 232 is particularly worrisome, because the statute is very broadly written and its use by the United States practically invites emulation from other countries. Renegotiation of existing trade deals, most importantly NAFTA. Criticism of the WTO dispute settlement mechanism on sovereignty grounds and a preference for bilateral talks over WTO or regional initiatives. The bottom line is the Trump administration is focused on undoing past deals and instituting border restrictions. It remains unclear whether this protectionism is a means to an end. That would be optimistic interpretation, that this is an elaborate tactical manoeuvre that will ultimately generate a more open system or rather, the protection is an end in itself. I will come back to that at the end.

Today, about 12% of American imports are under special protection. If Trump goes forward with his threat to increase the amount of Chinese imports under protection, that number could double. If the administration goes through with the threat to introduce a section 232 case on automobiles, and I will talk more about this in a moment, that would be another 15% of trade. Altogether, the administration is contemplating putting 40% of American imports under special protection. I am not saying that they are going to do that, but I want to signal to you the scale the administration is talking about. 8% of American exports are now under retaliation and that figure will rise *pari passu*, as the United



States goes forward with these other protective mechanisms. The two key drivers have been the renegotiation of NAFTA and concerns over China.

The NAFTA renegotiation, like the earlier renegotiation of the US-Korea trade agreement, had a net effect of weakening the agreement and moving the United States away from free trade. Maybe we should call the new US-Mexico-Canada agreement NAFTA 0.8. The renegotiation did yield some useful modernisations of the agreement, these were taken part and parcel from the language of the Transpacific Partnership Agreement, which President Trump pulled the US out of in its first week in office. While supporters can point to some good things in the new NAFTA, they are really a second best to getting those modernisations through TPP. The real innovations of the new NAFTA are twofold. One is the introduction of a convoluted sunset provision, which has the intent of creating uncertainty and deterring investment in Mexico. The second is the introduction of new highly restrictive rules of origin in the automobile sector. These include higher value-added value thresholds and the requirement that production be undertaken at a high minimum wage. The net effect of these new rules of origin is going to be to greatly increase the cost of doing business in Mexico. The tariff on automobiles in the United States is only 2.5%, so the companies could simply ignore these, pay the tariff and import the cars. To prevent the companies from doing that, the administration has is talking about bringing in a Section 232 case, with a tariff of 25%. That has set-off a scramble by third-country exporters, namely the EU, Japan and Korea, to try to get exemptions from that measure and the United States is demanding voluntary export restraints as the price of that exemption. The sad part of all this is modelling suggests it is quite possible by increasing costs of production in North America that much and by then imposing barriers on imports, the effect of this policy will actually be to reduce production and employment in the United States in automobile assembly, parts and distribution.

With respect to China, the administration has cited eight different justifications for its policy. These include reducing the trade imbalance, increasing exports, reducing Chinese steel-making capacity, stopping intellectual property rights abuse, ending China's industrial policies, slowing US FDI to China, deterring Chinese investment in US high tech, and terminating Chinese purchases of Iranian oil and gas. The question remains whether the threatened tariffs are a means to an end or a goal in itself, and if forced to choose, I would choose the latter, that the point is actually to reduce trade between the United States and China. Indeed, this can be seen as the economic component of the broader cold war with China.

Conclusion: Trump is a protectionist. He set the world economy off on a trajectory towards much higher levels of protection. While there is some possibility that this is all a negotiating tactic to gain leverage and will ultimately generate a more open system, my guess is what you see is what you get.

Jeffrey FRIEDEN

Thank you, Marcus, for that somewhat troubling interpretation of American trade policy. Which I happen to agree with.