

# Trump's Phony Trade War

1st of a 3-Part Series

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*Trump's trade team heads off to Beijing this week of May 2018 to attempt to negotiate terms of a new US-China trade deal. The US decision whether to continue the exemptions on Steel and Aluminum tariffs with the European Union occurs come this week as well. And this past week Trump also declared "we're doing very nicely with NAFTA".*

So what's all the talk about a Trump 'trade war'? Is it media hype? Typical Trump hyperbole? Is there really a trade war in the making? Indeed, was there ever? And how much of it is really about reducing the US global trade deficit—and how much about the resurrection of Trump's 'economic nationalism' theme for the consumption of his domestic political base in an election year?

One thing for certain, what's underway is not a 'trade war'.

Trump announced his 25% steel and 10% aluminum tariffs in early March, getting the attention of the US press with his typical Trump bombast, off-the-wall tweets and extremist statements. The steel-aluminum tariffs were originally to apply worldwide. But the exemptions began almost immediately. In fact, all US major trading partners were quickly suspended from the tariffs—except for China.

By mid-March, Canada and Mexico were let off the tariff hook, even though they were among the top four largest steel importers to the US, with Canada largest and Mexico fourth largest. Thereafter, Brazil (second largest steel importer), Germany, and others steel importers were exempted as well.[1] And Canada, by far the largest aluminum importer to the US, accounting for 43% of US aluminum imports, was exempted for imports of that product.

## South Korea 'Softball' Trade Template

The Trump administration's signal to its allies was the US-South Korea deal that soon followed. The South Koreans were pitched a 'softball' trade deal. South Korea, the third largest US steel importer last year, was exempted from steel tariffs, now permanently as part of the final deal. So much for steel tariffs. Moreover, no other significant tariffs were imposed on South Korea as part of the bilateral treaty revisions. No wonder the South Koreans were described as 'ecstatic' about the deal.

What the US got in the quickly renegotiated US-South Korea free trade deal was more access for US auto makers into Korea's auto markets. And quotas on Korean truck imports into the US. Korean auto companies, Kia and Hyundai, had already made significant inroads to the US auto market. US auto makers have become dependent on US truck sales to stay afloat; they didn't want Korean to challenge them in the truck market as well. Except for

these auto agreements, there were no major tariffs or other obstructions to South Korea imports to the US. Not surprising, the South Koreans were ecstatic they got off so easily in the negotiations.[2] Clearly, the US-South Korea deal had nothing to do with Steel or Aluminum. If anything, it was a token adjustment of US-Korea auto trade and little more.

So the Korean deal was a 'big nothing' trade renegotiation. And so far as US trade deficits are concerned, steel-aluminum imports are insignificant. Steel-aluminum tariffs do nothing for the US global trade deficit. US steel and aluminum imports combined make up only \$47 billion—a fraction of total US imports of \$2.36 trillion in 2017.

The steel-aluminum tariffs were more of a Trump publicity tactic, to get the attention of the media and US trade allies. And if the tariffs were the signal, then the South Korea deal is now the template. It's not about steel or aluminum tariffs. But you wouldn't know that if you listened to Trump's speech in Pennsylvania. Canada and Mexico import more steel to the US than South Korea. But in a final NAFTA revision they too will be virtually exempted from steel-aluminum tariffs when those negotiations are completed.

### **NAFTA as South Korea Redux**

According to reports of the NAFTA negotiations, most details have already been negotiated with Mexico and Canada and the parties are close to a final deal. Typical of the 'softball' US approach with NAFTA—like South Korea—is the US recent dropping of its key demand that half the value of US autos and parts imported to the US be made in the US. That's now gone. So a deal on NAFTA is imminent. Certainly before the Mexican elections this summer. But it will have little besides token adjustments to steel or autos. Trump threats to withdraw from NAFTA were never real. They were always merely to tell his base what they wanted to hear.

For what Trump wants from NAFTA is not a significant reduction of steel, auto, or any other imports to the US. What the US wants is more access for US corporations' investment into Mexico and Canada; more protection for patents of US pharmaceutical companies to gouge consumers in those countries like they do in the US; and a shift in power to the trade dispute tribunals favoring the US. He'll sell the exaggerated token adjustments to his political base, which will applaud his latest, inflated 'fake news'—while the big corporations and financial elites in the US will silently nod their heads in agreement for the incremental gains he's obtained for them.

In the most recent development concerning NAFTA negotiations, Trump has extended the deadline for a final revision for another thirty days—a development which means the parties are very close to a final resolution. The revisions will most likely look like the South Korean deal in many details—with quotas (not tariffs) on auto parts trade and more US access for US business investment and token limits on imports to the US.

### **Launching US-Europe Trade Negotiations: Macron's Visit/Merkel's Snub**

After NAFTA comes Europe, later this year and in 2019. Like the NAFTA negotiations, Europe deadlines on steel and aluminum tariffs were just extended another thirty days. That's just the beginning of likely further extensions. Europe will be less amenable to steel, aluminum or any other tariffs than the US NAFTA or South Korean partners. French president Macron's visit last week to the US should be viewed as the opening of negotiations on trade between the US and Europe. But the European economy is again weakening and France, Germany, the UK and others are desperate to maintain export levels, which is the main means by

which they keep their economies going.

Europe also wants to keep the Iran Deal in place, which means important exports and trade for it, while Trump wants to end the deal as he's promised his domestic political base. A tentative agreement may have been reached between Trump and Macron during the latter's recent visit to the US: Trump will formally pull the US out of the Iran Deal by May 12 but then will do nothing real apart from the announcement—much like the US withdrawal from the Climate Treaty. Europe will continue its trade deals with Iran. The US and Europe will then jointly try to negotiate an addendum with Iran. In short, France and Europe get to keep their business deals and Trump gets to pander to his political base before the elections in November. Like the Europe steel-aluminum tariff exemptions due this week, that announcement will soon follow as well within a week.

While Macron was treated like royalty by Trump during his visit to the US, German Chancellor Merkel, who followed within days, was treated more like a minor partner and snubbed. The snubbing wasn't about trade, however. It was more about Germany's refusal to participate in the Syrian bombings, as well as US dislike for the growing resistance in Germany to go along with extreme economic sanctions on Russia. Long run, what the US has always wanted from Germany is to substitute US natural gas imports (which the US now has a surplus due to fracking technology) for Russian gas and for Germany to stop building gas pipelines with Russia. Trump will likely focus on political concessions from Europe while seeking only token changes to imports from Europe to the US. In other words, the content of a US-Europe trade deal may differ from NAFTA or South Korea but the 'form' will remain dominated by token adjustments, with little net import reduction to the US.

The UK economy is slowing rapidly, German industrial production has slowed in the last three of four months. And signs are accumulating that globally trade, upon which Europe is especially dependent, is slowing once again. The UK in particular is an economic basket case. Brexit negotiations are in shambles. And the Conservative Party's days are numbered. Trump therefore will not demand extreme concessions from the UK. Nor will he from the rest of Europe, also now slowing economically—though not as severe as the UK—and important to Trump-US interests in concluding any trade deal with China, providing cover for US policy in the middle East, and with regard to Russian sanctions and US support for a collapsed Ukraine. Politics will dictate token trade adjustments with Europe.

### **Trump's Political Objectives**

Except for the case of China, therefore, the Trump trade war is mostly tough talking trade for show. Trump wants some token concessions from its US allies trading partners. Token concessions he can then 'sell' to his political base in an election year. He's playing to his 'America First' economic nationalist political base, agitating it for electoral purposes next November. He is in election mode, giving campaign speeches throughout the US as if this were September 2016 again. He may also be mobilizing that base in anticipation of the eventual firing of Mueller he plans and the political firestorm that may provoke from the traditional elites in the US. He's given them massive tax cuts and now some gains from trade negotiations without upsetting the global capitalist trade structure he once promised to do.

Trump is betting that delivering on taxes and trade to the elite will keep enough of them at bay. While delivering on immigration, the wall, and hyped (but phony) trade deals with US allies will convince his 'America First' political base he's delivering for them as well. The so-

called trade war is phony because it is designed to produce token adjustments to US trade relations with allies, which Trump will then inflate, exaggerate and lie about to his domestic political base, as they fall for his economic nationalism theme once again.

### **Is China the Trade Target?**

But where does that leave US-China trade? Certainly many believe that is headed for a 'trade war'. Tit-for-tat \$50 billion tariffs have been levied by both the US and China on each other. Trump has threatened another \$100 billion and China has said it will similarly follow suit. Even the products to be tariffed have been identified—the US targeted a wide range of imports from China and China in turn targeting US agricultural products and other industrial goods from the US Midwest, and thus Trump's political base.

Trump's trade team is by now in Beijing. It represents the major interest groups of Trump's administration: Treasury Secretary Mnuchin—the bankers and big US multinational corporations. Trade representative hardliners, **Robert Lighthizer** and **Peter Navarro**—the Pentagon and US war production industries. And **Larry Kudlow** the Trump administration's economic nationalists. Will the Trump phony trade war apply to China as well? Or will it be an actual economic war? Is it really about reducing the US \$375 billion annual trade deficit with China? Or about US bankers wanting more access and ownership of operations in China? Or is it about China's attempt to technologically leapfrog the US in the next generation war-making and cyber security software capability?

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*The second part of this three part series will address the China-US element of Trump trade policy and strategy.*

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### **Notes**

[1] Shawn Donnan, "Trump Softens Steel Stance, With Exemptions for 'Real Friends'", *Financial Times*, March 9, 2018, p. 1

[2] Alan Rapaport and Prashad Rao, "South Korea, Looking to Avoid Tariffs, Agrees to US Trade Deal", *New York Times*, March 27, 2018, p. 7.

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