An Alternative Paradigm: What Drives the Trump Administration’s Trade Policy?

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The New Face of International Trade Policy
My Reaction to Trumps’ Musings on Trade Policy During the Election and the Early Days in Office

- Old fashioned protectionist rhetoric
- Appeal to his Base’s fears about being taken advantage of by foreigners “up to no good”
- A wish to dismantle anything accomplished by the Obama administration
- Trade actions – threatened, put in place, put on hold, withdrawn, re-imposed, softened
- Chaotic – *trade policy by whim*
The “Ruling Paradigm” of trade policy (since 1947)

- Benefits of trade result from:
  - Efficiency benefits that arise from liberalization through specialization and comparative advantage
  - Strong rules of trade (constraints on governments)
  - Slow liberalization

- The paradigm is accepted by most governments and all previous US administrations

- There are, however, alternative paradigms
The Paradigm Underlying the Trump Administration’s Trade Policy

The alternative paradigm

- Trade policy is a zero sum game
- You only win by gaining concessions from trading partners
- You loose because of poor negotiating or foreign guile
  - hidden subsidies to exporters, currency manipulation, industrial policies to foster future industries with considerable potential, wage suppression, underpriced inputs such as timber or electricity
  - making commitments with no intention of keeping them
The United States is now engaging in a divisive debate over international trade. On the one side are disciples of the principles of free trade. Free traders argue that the interests of the United States, and of the world, continue to lie in reducing barriers, subsidies and other government interventions which distort the natural pattern of specialization and trade among countries. On the other side are those calling for policies to protect American industry from foreign competition. Protectionists argue that imports are causing massive unemployment and eroding the nation’s industrial base.

Robert B. Reich *Foreign Affairs* (1983)
The alternative paradigm not new:
The two camps have recently found common ground in the view that the United States must ‘get tough’ with trading partners that protect or subsidize their own industries. By threatening to close American markets or subsidize American traders if other nations fail to abandon their own interventions, free traders and protectionists can both serve their concerns.

It is an ideal political solution. By framing the issue as the proper American reaction to foreign transgressions we need not directly face the painful choice between free trade and protection. We can avoid articulating the national goals underlying our trade policy. Protection can be the sword of the free traders in their assault upon foreign trade practices while it simultaneously serves as a shield for those anxious to preserve American jobs. Everyone seems to win.

Robert B. Reich *Foreign Affairs* (1983)
A Change of Thinking

- There is actually a considerable literature on this paradigm – legal and political science
- Not the literature that economists tend to read
- This alternative view has never been accepted by previous US administrations
Framing Trade Policy in the Alternative Paradigm

➢ Trade policy in the alternative paradigm

◆ Maximize negotiating advantage

◆ Unconstrained ability to punish countries found to be cheating
  ○ Hit them fast
  ○ Hit them hard as a deterrent
  ○ If they don’t give in, hit them again - harder
The “Man of Action”

- Trump sees himself as a “Man of action”

- Does not like constraints
  - Courts (immigration)
  - Congress (build a wall)
  - The Press (fake news)
  - Social norms
  - Trade Agreements
Trade Policy of the Trump Administration

➢ Not chaotic

➢ Two objectives

1. Maximize negotiating advantage
   ❖ Negotiate bilaterally
     ▪ Ignore WTO negotiations
     ▪ Cancel TPP (but will negotiate bilaterally)
     ▪ Split NAFTA negotiations in two
     ▪ Steel quotas – Brazil, Argentina, Australia
   ❖ Sunset clause in new NAFTA

2. Remove constraints imposed by trade agreements
2. Remove constraints imposed by trade agreements

- Get rid of dispute mechanisms
  - Refuse to appoint new Appellate Judges at WTO
  - No dispute settlement in new NAFTA
- Use Loopholes in WTO Law
  - Tariffs justified on “National Security”
If the Trump Administration is Successful

- If constraints are successfully removed
  - Unfettered use of contingent protection
    - Anti-dumping duties
    - Countervailing duties
    - Other domestic provisions
  - Dispute settlement to be gone - China
The NAFTA Renegotiation and the Alternative Paradigm

- How did the NAFTA negotiations mesh with the alternative paradigm?

- How did the Canadian negotiators do?
TRUMP on NAFTA

“NAFTA is the worst deal ever, EVER”
Trump’s Problems with NAFTA

NAFTA’s Constraints

- In place forever
  - Solution – renew every five years

- Can’t threaten tariffs and duties because of independent disputes system
  - Solution – get rid of independent disputes system

- Can’t bring back manufacturing jobs – automobiles
  - Solution – make Mexico less competitive
US Economic Objectives in the Negotiations

Economic Objectives

- Extend patent protection for pharmaceuticals – from 8 to 12 years
- Open up Canadian cultural industries to US competition
- Open up cross-border shopping – from $20 - $800
- Open BC wine market to US competition
- Open up Canada’s dairy market – get rid of supply management
How did Canada’s negotiators do?

- **US strategy** – maximize negotiating advantage
  - Separate the US-Mexican negotiations and the US-Canada negotiations
  - Tried first to get Canada to negotiate separately – Canadian negotiators stood fast
  - Next worked on Mexico – classic “prisoners’ dilemma”
  - Mexico agreed to a separate deal – Canadian negotiators could not convince Mexico to stand firm
  - No prisoners dilemma outcome due to mid-terms
How did Canada’s negotiators do?

NAFTA’s Constraints

- In place forever
  - Solution – renew every five years – 16 YEARS (extension possible)
- Can’t threaten tariffs and duties because of independent disputes system
  - Solution – get rid of independent disputes system – NO - CHAPTER 19 UNCHANGED (Canada only)
- Can’t bring back manufacturing jobs – automobiles
  - Solution – make Mexico and Canada less competitive – NO REAL CHANGE FOR CANADA – MEXICAN WAGES AN ISSUE
How Did Canadian Negotiators Do?

- **Economic Objectives**
  - Extend patent protection for pharmaceuticals – from 8 to 12 years **10 YEARS**
  - Open up Canadian cultural industries to US competition **NO CHANGE**
  - Open up cross-border shopping – from $20 - $800 **INCREASED TO $150**
  - Open BC wine market to US competition **NO EXCLUSIVE BC STORES**
  - Open up Canada’s dairy market – get rid of supply management **NEXT**
## US Perspective on Supply Management

### 2000 Tariff Equivalent (%)

<table>
<thead>
<tr>
<th>Product</th>
<th>2000 Tariff Equivalent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk</td>
<td>241.2</td>
</tr>
<tr>
<td>Cheddar</td>
<td>245.7</td>
</tr>
<tr>
<td>Butter</td>
<td>298.7</td>
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<tr>
<td>Yoghurt</td>
<td>237.6</td>
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<tr>
<td>Ice cream</td>
<td>277.1</td>
</tr>
<tr>
<td>Skim milk powder</td>
<td>201.6</td>
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<tr>
<td>Turkey</td>
<td>154.8</td>
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<tr>
<td>Eggs</td>
<td>163.5</td>
</tr>
<tr>
<td>Live chickens</td>
<td>238.3</td>
</tr>
<tr>
<td>Chickens (whole, eviscerated)</td>
<td>238.3</td>
</tr>
<tr>
<td>Cooked or processed chicken products</td>
<td>249.0</td>
</tr>
</tbody>
</table>

Supply Management and the USMCA

- Initial US Demand was that Canada dismantle supply management and remove import quotas and tariffs.
- In the end in the USMCA Canada’s supply management system remains in tact
- Canada agrees to increase US dairy quota by 3.6% so that total foreign access is about 10%
- Canadian government will compensate dairy (and poultry) farmers for the loss – currently being negotiated
Is Supply Management Threatened?

- The CETA, CPTPP and USMCA all require increases in the TRQ quotas but the increases are less than the growth in the domestic production quotas – so with the new imports dairy farmers will experience less growth in domestic production quotas than they would have
- Supply management is not threatened
- And there will be compensation
Supply Management and Class 7 Milk?

- In NAFTA there could be no new tariffs on new products.
- To get around NAFTA TRQs some US processors in Wisconsin began producing a new product – diafiltered milk (a non-fat milk solid) – that is an input to cheese production.
- Canada has a surplus of non-fat milk solids.
- To counter US imports of diafiltered milk Canada began pricing its product – designated Class 7 – to eliminate US competitiveness.
- Under the USMCA Canada agreed to Class 7 milk being discontinued - US imports and surplus disposal problems.
The “Bottom Line” on USMCA

- Given President Trump has consistently said that NAFTA was the “worst trade deal ever, EVER” almost all of NAFTA remains in tact
- That has to be attributed to the skill of the Canadian negotiators – but they were helped by President Trump needing a “Big Win” on trade before the upcoming US elections
- US negotiating strategy in the NAFTA re-negotiation was consistent with the alternative paradigm
- Maybe the “Big Win” is in the name – USMCA – it puts “America first”
Conclusions

- While for economists the trade policy of the Trump administration may appear chaotic and ill-founded – it is far from chaotic.
- The administration appears to be following alternative paradigm regarding trade.
- The alternative paradigm takes no account of the efficiency gains economists expect from liberalization.
- This is not traditional protectionism – it is using trade measures like tariffs strategically to gain concessions – if concessions are made the trade measures will be withdrawn.
- Economists don’t have a monopoly on trade policy.
Thank you

References:

If you are interested: