

Intelligence MEMOS



From: Dan Ciuriak
To: Canadians concerned about US trade policy
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Re: Method to the Madness?

The Trump administration has pursued a sharply different – and for its partners unsettling – trade policy from that followed by the United States in the postwar period.

Much attention has been focused on the often contradictory, often theoretically unfounded, and often undiplomatically aggressive manner in which that policy has been implemented. But, nonetheless, it contains a coherent if not necessarily desirable or achievable vision for the US economy, as I argue in an address republished by the C.D. Howe Institute. Further, the new NAFTA is consistent with and advances this policy, and I reviewed how this policy is implemented under the new deal.

The broad aims of the Trump administration’s trade policy have been reasonably clearly stated and repeatedly reaffirmed. First, the administration has set out the aim of re-industrializing the US economy. The rationale given for this is national security. To achieve its objectives in this regard, the Trump administration is willing to accept short-term welfare losses for this departure from the optimization of economic production on conventional comparative advantage and efficiency terms.

The existing measure that might best exemplify this type of policy is the Jones Act, which requires that US coastal shipping be conducted on ships built in the United States and manned by US sailors. The stated objective is ensuring that the US has a fleet reserve to support its navy in times of war. The Trump administration’s industrial policy generalizes this aim and in effect can be considered akin to “the Jones Act on land.”

Second, it is seeking to re-balance American trade by taking back concessions it had made in underwriting the rules-based system; concessions that it now considers to have been disadvantageous for the US, or even abused by its trading partners.

Third, it is seeking to reclaim sovereignty by rolling back the constraints on its exercise of unilateral action created by binding dispute settlement provisions in trade agreements, as well as what it considers the overreach of the judicial function of the World Trade Organization (WTO). The administration views it as having infringed on US sovereignty in ways that the United States had not intended when the WTO Agreement was negotiated.

Fourth, it is intent on countering China, whose rapid technological advance has enabled it to take a leading position in the development of the 5G communications networks that underpin the Internet of Things (IoT).

Fifth, the United States is intent on advancing its intellectual property (IP) and digital economy interests through expanded protection for IP, and by locking in the current open digital regime for the platform economy in which its firms hold a dominant position in the global economy outside of China.

As a gloss on this characterization, a not unreasonable case for recapturing manufacturing activity can be based on recapturing the knowledge externalities generated in solving the engineering problems that “making things” throws up. Unfortunately, the Trump administration has not developed a well-reasoned economic case supported by evidence and the tactics it has chosen more than offset any credible positive effects the US economy could realize from these policy objectives.

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