



The March into Trade Wars: US Policy Aims and the Implications for Reconciliation

By Dan Ciuriak

Notes for remarks at the panel session on “The Impact of Tariffs and Trade Agreements on the Midwest,” 2018 Annual Meeting of CSG’s Midwestern Legislative Conference, Winnipeg, Manitoba.

Dan Ciuriak is Fellow-in-Residence with the C.D. Howe Institute (Toronto), Senior Fellow with the Centre for International Governance Innovation (Waterloo), Associate with BKP Development Research & Consulting GmbH (Munich), Director and Principal, Ciuriak Consulting Inc. (Ottawa) and Distinguished Fellow with the Asia Pacific Foundation of Canada.

The long trade peace that took hold with the signing of the General Agreement on Tariffs and Trade (GATT) on 30 October 1947 is over. As of mid-2018, the world is embroiled in a trade war of global dimensions.

To date, the scale of conflict is still minor. US tariffs have been raised on US\$92 billion worth of imports through a series of disputed measures covering washing machines and solar panels, and steel and aluminum products, and a range of products from China. At the same time, US trading partners have raised tariffs on US\$73 billion worth of US exports through tit-for-tat retaliation.¹ This is still small potatoes for a global economy valued at about US\$88 trillion, even though the tariffs are high relative to the average tariff rates applied worldwide.

However, much more is in the works. This includes US\$16 billion worth of US tariffs on Chinese products, to be matched by tit-for-tat Chinese tariffs on US goods, to be followed by 10 percent tariffs on an additional US\$200 billion worth of Chinese goods² as the United States escalates; indirect forms of retaliation by China on US companies operating in China; and possibly tariffs as high as 25 percent

1 Figures cited are from Keynes and Bown (2018).

2 Editor’s note: the value of US imports from China potentially subject to tariffs has since been raised to over US\$500 billion.

on as much as \$350 billion worth of automotive sector imports, matched by likely knock-on tariffs by US trading partners worldwide. In very short order, we will be talking real money.

As yet, the main action is between the United States and its various trading partners; however, countries are also putting in place defensive safeguard measures to pre-empt a flood of imports deflected from bilateral US trade into their markets. World Trade Organization (WTO) Director-General Roberto Azevêdo warned about a “disturbing increase in trade-restrictive activity” as the number of restrictive measures applied by G20 countries in the first half of 2018 more than doubled compared to the previous six months.

The economic consequences of the trade war are still not much in evidence in the macroeconomic data.

In the United States, prices on protected products have spiked behind the tariff protection in the context of an economy that is operating at a high level of capacity utilization and low open unemployment (which does not include discouraged workers). For example, the consumer price index component for washing machines rose by 16.4 percent in May 2018 behind the 20 percent tariff on those products. Similarly, steel and aluminum prices have risen sharply – even in contracts concluded before the imposition of tariffs – as the tariff measures gave pricing power to US steel producers, an oligopoly dominated by US Steel and ArcelorMittal. For benchmark products, the US price increase in April was 52 percent or double the 25 percent tariff applied. At the same time, prices of US export products are down: soybean prices have fallen by 13 percent from time of planting as a result of China’s tariffs (Valinsky 2018).

Otherwise, the main impact has been on investment, as uncertainty about future market access has led firms worldwide to pause and wait for further developments before committing to expansion plans, even in the face of a hot economy. Moreover, Chinese

investment into the United States is plummeting: in 2017, Chinese foreign direct investment (FDI) into the United States fell by more than a third to \$29 billion, and investment in the first quarter of 2018 fell further to \$5 billion, while Chinese firms engaged in the United States are reportedly looking for buyers for their assets (Wu and Wong 2018).

THE ROAD TO TRADE WAR

The 19th century philosopher of war, Carl von Clausewitz, saw war as a complementary instrument to diplomacy – international policy “with other means.” This draws a line between war and peace: in a trade context, agreements are established by negotiation, which is recognizably diplomacy. So, working within and abiding by agreements falls into the realm of diplomacy and does not constitute war. The move beyond to “other means” in the form of unilateral actions that impose costs on other parties would however be war – or something like it.

In assessing the moves that the United States and its trading partners have made to date, it is important to shift the spotlight from the tweets of President Trump to the actions taken by the parties. Trade wars start when the disciplines on trade protection imposed by trade agreements – in particular by the WTO Agreement – are made irrelevant by non-observance.

Exit from the Trans-Pacific Partnership (TPP)

The US withdrawal from the TPP sent a signal to the trade community, since it represented a pre-emptive strike against what the trade community considered the new “gold standard” in trade arrangements. The withdrawal was not obviously aligned with US interests as conventionally understood, including in terms of pursuing a market-opening agenda abroad, of containing China, and more generally of asserting economic hegemony: “As a Pacific power, the United States has pushed to develop a high-standard Trans-

Pacific Partnership, a trade deal that ... makes sure we write the rules of the road for trade in the 21st century” (Obama 2016).

The United States was under no legal obligation to enter into the TPP, even though President Obama had signed it, since that required an *Act* of Congress. So, this action was neither illegal nor per se aggressive. We need not go here into the question of quantitative costs and benefits – that has been elaborated elsewhere (see, e.g., Ciuriak et al. 2018; Petri et al. 2017; Dade et al. 2017).

Renegotiation of the North American Free Trade Agreement (NAFTA)

Presidential candidate Trump campaigned with unrestrained invective against NAFTA. The United States delivered on this campaign rhetoric by re-opening the agreement; however, the procedures followed were those set out in the NAFTA to trigger a renegotiation. Moreover, some progress has been made in concluding chapters, which shows that talks are still in negotiation mode, and we can be sure that the diplomatic notes passed between the parties so far have observed formal diplomatic niceties. NAFTA remains in force and its rules are being observed, even if the enforcement has thickened the border for movements of workers for example.³ Even NAFTA lapsing and a reversion to WTO rules for North American trade would not be trade war.

Trade Remedies

A number of trade remedy actions (notably on solar panels and washing machines) were taken by the United States, using measures that amount to negotiated escape clauses from treaty commitments – anti-dumping and countervailing duties. The

academic literature on anti-dumping (mainly written by Americans) is absolutely scathing on the use of these instruments as thinly veiled protectionism and singles out the United States as being a particularly egregious user in terms of the level of duties applied.

For example, the European Union, the next biggest user of these instruments of protection, routinely invokes a “lesser duty” rule, which tends to reduce the level of duties applied, while the United States has championed methods to increase the height of duties (e.g., by using a now WTO-condemned practice of “zeroing” – that is, when a claim that foreign suppliers were selling below their domestic price was refuted by the evidence, US authorities would eliminate the evidence and focus on those sales that supported the claim of unfair pricing).

However, such duties are part of the legal trade policy paraphernalia and a case can even be made that the use of these instruments is akin to “tacking to stay the course” – in other words, judiciously applying protection to maintain a generally liberal trading regime (Ciuriak 2012). Also, these duties mainly hurt American households. No trade war here.

Weaponizing Uncertainty

In economics, it’s not only sticks and stones that break bones, words also hurt. The myriad threats and confusing statements from the Trump Administration have served to undermine confidence about market access. The threat against Harley Davidson that it would be “taxed as never before” for moving part of its production aimed at export markets abroad because of the hit to its competitiveness by US steel and aluminum tariffs and retaliatory EU tariffs is just the latest and most jarring of such threats – although it has no basis in US law (Hufbauer, 2018). The aim to make access to the US market uncertain is deliberate

3 For example, Hill and Jackson (2018).

(Crowley and Ciuriak 2018) and this is a real cost to US trading partners. Pity that it is not subject to WTO disciplines. So, even here, where the United States has generated real harms to its trading partners, it has not yet gone outside the bounds of negotiated deals and into the realm of trade wars.

Section 232 Tariffs on Steel and Aluminum

The tariffs on steel and aluminum were based on a dusted-off, pre-WTO measure in US trade legislation, Section 232 of the Trade Expansion Act of 1962, which authorizes trade restrictions on national security grounds. However risible the claim of “national security” concerns might be with respect to steel and aluminum imports from Canada and other long-standing US allies, the significant point from a trade policy perspective is that there is provision in the WTO Agreement – Article XXI of the GATT – for WTO members to break their commitments if there are national security concerns. As pointed out by Busch (2018), the United States has prepared the legal grounds for denying a WTO panel jurisdiction to make a determination of whether a nation claiming national security grounds is acting within the intent of the GATT provisions. This suggests that the United States is still playing the game within the system.

Meanwhile, retaliation without WTO approval is tantamount to characterizing the US measures as a “safeguard” and claiming unilaterally determined compensation in the form of retaliatory tariffs (Busch, 2018). Such a course risks losing a WTO challenge.⁴ Given the concerns about the legalities, it would

make most sense for US trading partners to base retaliation on precisely the same grounds as used by the United States – national security. If steel imports negatively impact US security, then it follows that our steel imports negatively impact our national security. Never mind that the arguments are risible – this is a case of “risible for risible” and fully consistent with the principle of reciprocity embraced by the Trump Administration. Yes, there is a risk to the integrity of the WTO Agreement – creating a hole that any protectionist truck can be driven through – but these concerns can be dealt with when existential threats to the multilateral system are no longer in play.

While the retaliating parties should consider their approach carefully, it is arguable that they “owe” the United States the duty to help restore win-win cooperative behaviour in the sense of “friends helping friends” when they are about to go down a bad path. The tit-for-tat tariffs aim to do just that and they might work if they generate sufficient pressure to materially affect the mid-term elections in November. Section 232 tariffs and the retaliations are not an outright declaration of war although they walk right up to the line.

As for the economics of the US measures, there should be no great concern. Given price-inelastic demand schedules, the reality is that the main impact will be on US consumers as the tariff is passed through into final goods prices. In fact, the actual pricing behaviour of US steel producers has raised US domestic prices sufficiently to allow foreign producers to continue to ship to the United States, even with

4 The US challenge to the retaliation at the WTO was filed on 16 July:

“The United States today launched separate disputes at the World Trade Organization (WTO) against China, the European Union, Canada, Mexico and Turkey, challenging the tariffs each WTO Member imposed in response to President Trump’s actions on trade in aluminum and steel to protect the United States’ national security interests.

“The U.S. steel and aluminum duties imposed by President Trump earlier this year are justified under international agreements the United States and its trading partners have approved. However, retaliatory duties on U.S. exports imposed by China, the EU, Canada, Mexico and Turkey are completely without justification under international rules.” (USTR 2018).

the 25 percent tariffs in place. Formal quantification of the impacts suggests that Canada and Mexico will suffer minor economic damage and other US partners will actually come out ahead on net terms, as their downstream steel and aluminum-using industries gain competitive advantage over US producers (Ciuriak and Xiao 2018).

Section 301 Measures on China’s Intellectual Property (IP) Rights Practices

As IP grew in importance for the United States economy, ensuring increased protection for it abroad became a cornerstone of US commercial policy. One of the measures adopted was an annual report by the US Trade Representative (USTR) – “special 301” – pursuant to Section 182 of the 1974 *Trade Act*, on whether US trading partners provide “adequate and effective” protection of IP rights or “fair and equitable market access to United States persons that rely upon intellectual property rights”; an adverse finding can trigger unilateral US sanctions against the allegedly offending country under Section 301 of the 1974 *Trade Act*. This latter measure has now been invoked against China.

When China joined the WTO in 2001, it negotiated terms of entry with all parties, including the United States. Those terms were much more demanding than normally exacted from a developing country (which China clearly still was in 2001). And while China obtained significant direct benefits from many parties (particularly in terms of withdrawal of trade remedy actions that had been taken against China, completely free of any WTO constraints), the United States provided little more than a commitment to treat China like it treats other WTO members (and, even there, with reservations). Moreover, the United States indicated it would staff up to monitor China’s compliance with the terms of its accession to “work with US companies to address their concerns on a day-to-day basis” (USTR 2001) and to use all available means to enforce China’s

compliance. Thus, the United States had the whip in hand in the bilateral negotiation and used it to the fullest in obtaining Chinese concessions and, in subsequent years, in mounting WTO complaints. As the pre-Trump USTR (2017: 2) report on China’s compliance states:

“In 2016, as in past years, when trade frictions arose, the United States pursued dialogue with China to resolve them. However, when dialogue with China has not led to the resolution of key trade issues, the United States has not hesitated to invoke the WTO’s dispute settlement mechanism. Since China’s accession to the WTO, the United States has brought 20 WTO cases against China, more than twice as many WTO case as any other WTO member has brought against China. In doing so, the United States has placed a strong emphasis on the need for China to adhere to WTO rules and has held China fully accountable as a mature participant in, and a major beneficiary of, the WTO’s global trade system.”

In short, the United States has, over the years, vigorously pursued all the complaints raised by its firms about access to China’s markets. Indeed, parallel to the Section 301 action, the Trump Administration has also formally lodged a complaint at the WTO about China’s IP practices: *China – Certain Measures Concerning the Protection of Intellectual Property Rights* (DS542). In this case, the United States claims that China’s measures appear to be inconsistent with Articles 3, 28.1(a) and (b), and 28.2 of the TRIPS Agreement (the WTO-administered Trade-Related Aspects of Intellectual Property Rights Agreement).

As for the economics of China’s IP policies, the all-out push that China has made to upgrade its technology has grown its gross domestic product (GDP), which in turn has driven demand for imports. China is one of the few developing economies to make IP acquisition its top priority and it is one of the few developing economies to actually develop in the sense of transitioning to a modern

economy. And, as many have pointed out, China has good precedents for its approach – when the United States was a developing country, it too stole technology developed by other nations by offering bounties to individuals who would bring over trade secrets – that’s how America got Samuel Slater, the “Father of the American Industrial Revolution,” to bring over the trade secrets of the new English cotton gin. The United States also reprinted books without paying copyright (including those of Charles Dickens, who travelled to America in vain to secure his royalties), which helped make American publishing the powerhouse it became in the 1800s. As Chang (2003) observed, countries that grow wealthy not uncommonly attempt to “kick away the ladder” on which they had climbed to prevent future competition. So, there is neither moral high ground nor sound economics in the US assault on China over IP practices apart from specific allegations of non-compliance with WTO rules as set out in the US TRIPS challenge.

For the present discussion, the question is whether the Section 301 actions cross the line from diplomacy to war. As Busch (2018) points out, if the United States had imposed tariffs on China only in the wake of verified non-compliance with WTO commitments and authorization of withdrawal of commensurate benefits by a WTO panel, it would not have crossed that line (however truculent the rhetoric from the White House). Moreover, if an eventual win for the United States led to an award for countermeasures, the size of the award would likely be far short of the amounts put forward by the United States, consistent with the narrow scope of its formal claims.

The Bottom Line

The unilateral move against China can be properly characterized now as crossing the line. China’s retaliation is also outside of WTO procedures. This is not the “storm before the calm” – a trade war has been launched.

WHAT ARE THE TRUMP ADMINISTRATION’S TRADE OBJECTIVES?

Early on, the Trump Administration indicated its intent to repatriate industrial supply chains based on the national security rationale that the United States needed to maintain the industrial skills required to, for example, fix the propellers on US navy submarines (Navarro 2017). The Section 232 tariffs on aluminum and steel and the Section 232 tariff investigation currently underway on autos are formally grounded on national security. Similarly, the Section 301 measures have been characterized as necessary for national security on grounds that they defend America’s economic security, on which its national security depends.

National security has long been used as a rationale for US trade protection: for example, the *Jones Act* requires ships used for coastal and inland shipping to be built in America and staffed by American personnel, with the express purpose of ensuring the availability of a naval reserve in case of war. President Trump’s trade policy can thus be described as amounting to the “*Jones Act* on land,” with the larger purpose of fundamentally repositioning the United States in the global economy (Crowley and Ciuriak 2018). This perspective on Trump’s trade policy is explicitly captured in US commentary: “The US is invoking national security to bust out of the delicate web of trade agreements that it’s spent decades carefully spinning” (Coy 2018).

Trump’s trade policy echoes the Bush Doctrine in foreign policy: “George W. Bush has ... redefined how America engages the world, shedding the constraints that friends, allies, and international institutions impose on its freedom of action. He has insisted that an America unbound is a more secure America” (Daalder and Lindsay 2002). Consistent with the Bush Doctrine, Trump’s trade policy seeks to redefine how America engages the world economically; it rejects regional trade agreements and binding commitments, in favour of one-on-one “deals” in

which it has the whip hand; and it asserts national security to unilaterally reorder US trade relations (Ciuriak 2018).

What are the conclusions to which this perspective points? The targeting of production inputs for tariff increases has the effect of forcing US companies to relocate their supply chains inside US borders. The second round of tariff increases on final goods then has the effect of protecting US domestic production from the negative competitive effects of the tariffs on inputs. There is, accordingly, method in what many have characterized as trade madness – although in the final analysis, this will come at the expense of economic efficiency, both in the United States and elsewhere, and at a cost to consumers in terms of reduced welfare and income.

THE ECONOMICS OF TRADE PROTECTION

A tax on imports is a tax on exports (Lerner 1936). This principle is as fundamental to trade policy as the principle of comparative advantage is to trade theory (as cogently stated by American trade historian Doug Irwin on Twitter).

The first-round immediate effect of tariffs on prices for consumers of targeted products is to provide incentives for them to turn to domestic alternatives or imports from non-targeted countries. This creates both an incentive for increased domestic production and generates trade diversion. Overall consumer prices go up, but by less than the tariffs.

The second-round effects work through many channels to reduce exports. For example, countries export to generate foreign revenues in order to import. Reduced imports by one country due to tariffs reduce the earnings by foreign producers that can be used to purchase domestic goods and services. An alternative channel is through exchange rate adjustments. Reducing imports works in the first instance to reduce the supply of a country's currency abroad, which tends to raise its price. The real appreciation of its currency

in turn undermines its export competitiveness across the spectrum of its exports.

These effects are illustrated by quantitative models of trade that take into account the general equilibrium effects of tariffs. As shown in Table 1, US tariffs on steel and aluminum products reduce US imports by a total of US\$23.4 billion. US producers' domestic shipments of steel and aluminum go up US\$33.8 billion, which reflects the increased price of the products behind the protective tariff wall. As US producers redirect production to the now more lucrative domestic market, and the blocked imports seek markets elsewhere, US exports of steel and aluminum products decline – even without retaliation – by US\$5.9 billion. Total shipments by US steel and aluminum producers increase by the amount of domestic shipments and exports, or by US\$27.8 billion. This creates jobs and expansion of the protected sector and an improved trade balance (up by US\$17.5 billion) in these products, as explicitly aimed for by the policy. So far so good from the protectionist perspective.

But the story doesn't end there. Downstream users of steel and aluminum in the United States (which are identified mainly as automotive, machinery and equipment, other transportation equipment, and electronic equipment) face higher input costs – including in competition for labour and capital in the domestic market from the now expanding steel and aluminum sectors.

This results in tougher import competition, since foreign producers of these downstream products now face lower input costs than their US counterparts. US imports of downstream products increase by US\$3.6 billion and domestic shipments of US producers decline by even more (by US\$4.1 billion) as the higher domestic prices reduce overall demand for these products. On top of that, US producers of downstream products lose sales abroad as their products are also now less competitive on foreign markets; this amounts to a loss of export sales of about US\$8.6 billion. The bottom line for the

Table 1: Impacts of US Tariffs on Steel and Aluminum, USD Millions at 2018 Prices

| | Exports | Imports | US Trade Balance |
|--------------------------------------------------------|---------------|----------------|------------------|
| US Trade in Targeted Products with: | | | |
| Canada | -1,111 | -7,298 | 6,187 |
| Mexico | -531 | -571 | 40 |
| EU28 | -727 | -1,534 | 806 |
| China | -1,152 | -2,707 | 1,555 |
| Japan | -124 | -805 | 681 |
| Korea | -261 | -1,411 | 1,151 |
| ROW | -2,029 | -9,087 | 7,058 |
| Total | -5,934 | -23,413 | 17,479 |
| US Domestic Shipments of Targeted Products | 33,756 | | |
| US Total Shipments of Targeted Products | 27,822 | | |
| Impact on US Downstream User Sectors | | | |
| Trade | -8,606 | 3,616 | -12,222 |
| Domestic Shipments | -4,071 | | |
| Total Shipments | -12,677 | | |
| Impact on US Economy-Wide Total Shipments, All Sectors | 1,485 | | |

Source: From Ciuriak and Xiao (2018), Table 2.

downstream user sectors is a decline in total sales of US\$12.7 billion (the sum of reduced exports and reduced domestic sales).

Further, the overall economic impact of tariffs is to reduce the efficiency of the US economy – there is a real economic cost that impacts on the economy’s ability to generate goods and services. When the impacts across all sectors of the economy are taken into account, real GDP in the United States is lower. The sectors that bear the brunt of the negative impact on total incomes in the United States in real terms are the services sectors. Apart from the major user sectors, the chemicals, rubber, and plastics complex is the most affected, reflecting this sector’s inputs to the user sectors.

In sum, US total exports of goods and services fall by US\$16.4 billion, while its imports fall by US\$20 billion in this simulation – again, it must be emphasized that the decline in exports occurs even in the absence of retaliation, as the economic effects of the tariffs work their way through the US economy. The small improvement in the US overall trade balance reflects mainly small terms of trade gains as foreign exporters lower their price to stay in the US market in the face of tariffs.

Total domestic shipments rise in value, but only because of the higher prices. On balance, the tariffs shuffle production in the United States to the protected sectors from unprotected sectors – robbing Peter to pay Paul.

Retaliation worsens the negative impacts on all parties and wipes out the terms of trade gains for the United States, ensuring lose-lose for all parties.

THE REGIONAL DIMENSION

For the American Midwest and the Canadian border states, Trump's trade policy has significant implications. Economic geography considerations dominate the regional dimension. For the trucking-dependent US border states and Canadian prairie regions, north-south trade is relatively efficient from a transportation perspective compared to longer distances to be covered by east-west trade.

In this regard, the northern US states enjoy an important benefit from an open border with Canada, because this means that they are not the end of the line for commercial shipments coming from US producers further south. Many products have a relatively small radius of trade due to high weight-to-value ratios, such as rebar or gypsum board, making them uneconomical to truck over long distances. Without the Canadian markets to the north, producers located at the US border would only be shipping south or east and west; producers further south, however, would be able to ship in all directions within their economically feasible radius of trade, giving them locational advantage in terms of scale and proximity to markets. Having Canada as an important destination pulls US production northwards right to the border. Without Canada, these border regions would have trouble retaining production.

For consumers in the border regions, this has important implications: being the most distant customer also makes one the costliest customer to serve. To the extent that transportation costs are not fully passed through, it also means the furthest customer provides the lowest profit margins and is

the first customer to face delays in shipments when markets heat up and capacity is tight. There are benefits to not being your supplier's least profitable customer!

An open Canadian border thus puts the northernmost US communities in the middle of a regional economy rather than being on the periphery. These benefits are over and above the direct benefits of exports to Canada.

THE OUTLOOK

The outlook is not good.

At the multilateral level, the US refusal to affirm new WTO Appellate Body members undermines the ability of the WTO dispute resolution function to continue in the long run. While the Trump Administration has made suggestions to redress its trade concerns through global trade liberalization – including a “zero for zero” on all tariffs, subsidies and quotas – these over-the-top proposals have no credibility. In the first instance, they would require either: (i) a mega-regional trade agreement⁵ (although this would have to include China to end the trade conflicts), an arrangement not favoured by Trump who prefers one-on-one dealings, or (ii) undermining the basic WTO principle of “most favoured nation” treatment, since most developing countries would not be in a position to go to zero.

On NAFTA, as on the WTO, the tone of President Trump's rhetoric can be described as “truculent”, while the “poison pill” demands put a cloud over negotiations. To riff off the iconic song, “Bye Bye Miss American Pie,” Canada has driven its Chevy to the negotiation levee and found the levee was dry. As Canada's Chief Trade Negotiator was recently heard saying, negotiations with the United States on a new trade agreement have stalled. And, in

5 For example, as suggested by Schwanen (2018).

commentary after commentary, we can hear echoes of the lapsing of an age. America has changed.

From a Canada-US perspective, there are no significant problems in NAFTA to fix – only genuinely minor irritants – and powerful grounds for not fixing what is not broken. Consider the following:

- There is a near-perfect balance of Canada-US trade, and a surplus for the United States in manufacturing;
- A dairy quota expansion would be an easy fix for the dairy dispute (rhetoric aside), if there is political will in the United States, given the concessions that Canada already negotiated in the TPP;
- Sub-regional interests – and particularly agricultural interests in the Midwest and Canadian prairie provinces, which include the deeply integrated beef sector – obtain major benefits from NAFTA.

But it is important to take account of the fact that the great drivers of US ambitions in continentalism were autos and energy and the situation has changed in these sectors since NAFTA came into effect due to the shift of auto production to Mexico and the fracking revolution in energy supply in the United States. This weakens the “big picture” case for NAFTA in the United States at the national level. By the same token, it increases the onus on state-level and province-level politics to block NAFTA being derailed. This is necessary because, when this all ends, Canada and the United States will still be each other’s biggest trading partners.

President Trump does not like NAFTA. And he has pushed through other controversial measures on which he had campaigned, including withdrawal from the Paris Accord on climate change, withdrawal

from the Iran nuclear deal, moving the US embassy in Israel to Jerusalem, boosting military spending (even above the ask from the Pentagon), tax cuts, and deregulation. Considered against this background, NAFTA must be considered to be on life support and will be preserved only through concerted domestic opposition in Congress and by US states.

As for the wider picture, the outbreak of trade wars, with no obvious off-ramp back to trade peace, is worrisome. Markets have remained remarkably steady, but I think this reflects the heightened uncertainty, which holds back selling as well as buying.

As argued by Crowley and Ciuriak (2018), this uncertainty is being used deliberately and tactically by the Trump Administration. Not only does it tilt investment decisions concerning where to invest to produce for the US market in favour of US locations, but periodic apparent openings to trade liberalization – as was made most recently by the signal that the United States will seek re-entry into the TPP⁶ – help keep President Trump’s political support in place by offering hope of early relief from the damage inflicted by the tariff policy.⁷

However, as the full magnitude of the conflict becomes clearer, and the implications for the global trading system are digested, such stability cannot be taken for granted. The only one having a quiet summer on the golf course may be President Trump; everyone else will be worrying about trade wars and how to defuse them.

6 Editor’s note: the joint announcement on 25 July 2018 by President Trump and European Commission President Juncker of a pledge to work together towards liberalizing bilateral trade, while falling short of re-opening the Trans-Atlantic Trade and Investment Partnership (TTIP) talks, must be considered in this light as well.

7 Editor’s note: the announcement of a US\$12 billion support package for US agriculture has the same intended effect of shoring up Mr. Trump’s base. Since they likely run afoul of WTO rules, they introduce knock-on frictions to the trade system.

REFERENCES

- Busch, Marc L. 2018. "What Trump's Trade War Could Mean for the WTO and Global Trade." *Harvard Business Review*. 7 June.
- Chang, Ha-Joon. 2003. "Kicking Away the Ladder: The 'Real' History of Free Trade." *Foreign Policy in Focus Special Report*.
- Ciuriak, Dan. 2012. "Trade Defence Practice in Canada." Ciuriak Consulting Working Paper, February.
- . 2018. "America Unbound: The New World Order in Trade?" <https://ssrn.com/abstract=3190705>.
- Ciuriak, Dan, and Jingliang Xiao. 2018. "Quantifying the Impacts of the US Section 232 Steel and Aluminum Tariffs." C.D. Howe Institute Working Paper. June.
- Ciuriak, Dan, Ali Dadkhah, and Jingliang Xiao. 2018. "The TPP 10, 11, 12." Ciuriak Consulting Working Paper.
- Coy, Peter. 2018. "National Security Is a Good Reason for Protection. But Not of Steel and Aluminum." Bloomberg. 2 March 2018.
- Crowley, Meredith A., and Dan Ciuriak. 2018. "Weaponizing Uncertainty." C.D. Howe Institute, Verbatim. June.
- Daalder, Ivo, and James M. Lindsay. 2002. *America Unbound: The Bush Revolution in Foreign Policy*. Brookings Institution.
- Dade, Carlo, Dan Ciuriak, with Ali Dadkhah, and Jingliang Xiao. 2017. "The Art of the Trade Deal: Quantifying the Benefits of a TPP without the United States." Canada West Foundation. June 2017.
- Hill, Sharon, and Emily Jackson. 2018. "Canadians working in the US 'sitting on edge' over the uncertain fate of NAFTA." *Windsor Star*, 5 January 2018. <https://windsorstar.com/news/canadians-working-in-the-u-s-sitting-on-edge-over-the-uncertain-fate-of-nafta>.
- Hufbauer, Gary C. 2018. "Trump Gets an Economics Lesson from Harley-Davidson." Peterson Institute of International Economics, Blogpost. 26 June 2018.
- International Monetary Fund (IMF). April 2018. *World Economic Outlook Database*. <https://www.imf.org/external/pubs/ft/weo/2018/01/weodata/index.aspx>.
- Keynes, Soumaya, and Chad Bown. 2018. "Trade Talks Episode 46: How Do Trump's Tariffs Stack Up Historically?" Podcast. <https://piie.com/experts/peterson-perspectives/trade-talks-episode-46-how-do-trumps-tariffs-stack-historically>.
- Lerner, A. P. 1936. "The Symmetry between Import and Export Taxes." *Economica New Series* 3(11): 306-313.
- Navarro, Peter. 2017. Speech to National Association of Business Economists, 6 March 2017, Mimeo.
- Obama, Barack. 2016. "President Obama: The TPP would let America, not China, lead the way on global trade." *Washington Post*. 2 May 2016.
- Petri, Peter A., Michael G. Plummer, Shujiro Urata, and Fan Zhai. 2017. "Going It Alone in the Asia-Pacific: Regional Trade Agreements Without the United States." Peterson Institute Working Paper 17-10. October 2017.
- Schwanen, Daniel. 2018. "A New Coalition for Trade in the Era of Trump," Intelligence Memo, C.D. Howe Institute. 6 July 2018.
- United States Trade Representative (USTR). 2001. "Background Information on China's Accession to the World Trade Organization." USTR. 11 December 2001 <https://ustr.gov/archive/Document_Library/Fact_Sheets/2001/Background_Information_on_China's_Accession_to_the_World_Trade_Organization.html>.
- United States Trade Representative (USTR). 2017. "2016 Report to Congress On China's WTO Compliance." Washington, D.C.: USTR.
- . 2018. "United States Challenges Five WTO Members Imposing Illegal Tariffs Against US Products." Press Release, Office of the United States Trade Representative. 16 July 2018.
- Valinsky, Jordan. 2018. "Trade war fallout: Soybean prices plunge to a 10-year low." *CNNMoney*. 11 July 2018.
- Wu, Wendy, and Catherine Wong. 2018. "Chinese investment into US down by a third as Washington and Beijing battle over trade." *South China Morning Post*. 20 April 2018.