http://www.politico.com/magazine/story/2017/01/the-roots-of-trumps-trade-rage-214639

Politico (January 16, 2017)

The Roots of Trump's Trade Rage

The Davos set ignored the warning signs for years. Now, global elites Are rightly worried about what comes next.

By Edward Alden

For more than three decades, Donald Trump has made it clear that, if ever elected president, he would turn U.S. trade policy in a radically different direction. And he himself would be at the helm. "What I would do if elected president would be to appoint myself U.S. Trade Representative," he wrote in his 2000 book The America We Deserve, when he was considering a run for president on the Reform Party ticket. "My lawyers have checked, and the president has this authority. I would take personal charge of negotiations…. Our trading partners would have to sit across the table from Donald Trump and I guarantee you the rip-off of the United States would end."

Now, against all odds, Trump is about to become the president of the United States, and he has the extraordinary opportunity to upend an elite consensus that has shaped America's global strategy since the second World War.

Trump has completed the triumvirate of appointments that will make up his team on U.S. trade policy, adding Washington trade lawyer Robert Lighthizer as U.S. trade representative to billionaire fund manager Wilbur Ross for commerce secretary and China hawk Peter Navarro as the head of the new White House National Trade Council. Corporate lobbyists and foreign envoys are busy scouring the writings and records of each to try to judge what it means for the future direction of U.S. trade policy.

They shouldn't have to look too hard: Trump was elected for many reasons, but growing frustration over the negative impacts of trade played a big part. He won the election in the manufacturing states hardest hit by import competition, including Michigan, North Carolina, Ohio, Pennsylvania and Wisconsin. And he won the highest percentage of union voters of any Republican president since Ronald Reagan in 1984. Since his election, union leaders have tried to cozy up. AFL-CIO leader Richard Trumka, who visited Trump Tower last week, recently said he would support Trump's calls for renegotiating the North American Free Trade Agreement (NAFTA) with Mexico and Canada, among other trade deals. "Entire communities have lost their purpose and identity, and we have to fix that," he said. "Working people are looking for a new way forward on trade."

Trump's election indeed promises a new way forward that will be the most nationalist – and likely protectionist – that the United States has seen in nearly a century. The American political system—let alone the transnational elites now gathering in Davos, Switzerland—has not yet come to terms with just how massive the changes are likely to be: Trump's policies will call into question the global investment strategies of U.S. multinational companies in industries ranging from autos to semiconductors, the global sourcing by large U.S. retailers like Wal-Mart and Target, and the global trade rules constructed under the leadership of the United States. They could shake U.S. alliances around the world, providing openings for adversaries like China and Russia.

Trump's promise is that better, fairer trade deals will bring more jobs and opportunities home for U.S. workers. Done cleverly and diplomatically, his approach could be a long-overdue correction for trade and economic policies that have left too many Americans behind. Done crudely, it could drive the world back into the damaging trade wars of the 1930s, leaving Americans and the world much worse off.

One has to go back a long way—before Franklin Roosevelt's Reciprocal Trade Agreement Act of 1934—to find an American president who thought about trade in anything like the way Donald Trump does. Since becoming the world's economic and military giant, American presidents have seen trade as one of the few easy "win-wins" in the complicated world of foreign policy. Lowering trade barriers, they argued, was good for American companies that could invest across the world, good for America's allies exporting to the United States, good for U.S. consumers who would enjoy cheaper televisions and T-shirts, and good for American workers whose products could find new markets overseas.

Republican and Democratic presidents have been similarly enthusiastic. John F. Kennedy believed that "we cannot protect our economy by stagnating behind tariff walls." Ronald Reagan in 1988 foresaw a coming era in which "new technologies, new opportunities beyond all imagination just a few years ago are coming into being." But he warned that "nothing is more certain to cut this new era short [than] to start throwing up trade barriers again around the world." Even a skeptic like Barack Obama, who had run against NAFTA in the 2008 campaign, came around to embracing trade as a winner for America's economy and its foreign policy, and negotiated the huge Trans-Pacific Partnership (TPP) deal with Japan and 10 other Pacific Rim countries.

Trump is unlikely to be so persuadable. In the mid-1980s, while Reagan was extolling the virtues of freer trade, Trump was positioning himself in a vocal minority that believed the United States had been the big loser from global trade liberalization. He came onto the political stage in 1987 with a full-page ad in the New York Times attacking the Japanese for relying on the United States to defend it militarily while they "have built a strong and vibrant economy with unprecedented surpluses." He was more explicit the next year on the Oprah Winfrey show. "We let Japan come and dump everything in our markets. It's not free trade. If you go ever to Japan and try to sell something, forget about it, it's almost impossible. They don't have laws against it, they just make it impossible. They come over here they sell their cars, their VCRs, they knock the hell out of our companies."

More than on any other issue, <u>Trump has a long-standing, consistent view on U.S. trade with the rest of the world: They are winning and we are losing</u>. He keeps score by counting up the U.S. trade deficit – the difference between what we sell and what we buy. For the past three years, the score has been about the same – the U.S. loses by $500 billion each year. The United States last ran a trade surplus in 1975. And while he has not formally named himself as USTR, Trump is already playing the role of chief trade negotiator by threatening and cajoling American companies like Ford, GM and Carrier – and even foreign ones like Toyota and BMW-- to keep jobs and production in the United States or run the risk of costly tariffs being slapped on their imports.

Trump's trade skepticism was long a minority position, but it was far from a weak one. Ross Perot ran a strong third party bid for president in 1992 on a campaign to dump NAFTA, warning of the "giant sucking sound" of jobs moving to Mexico if the pact was approved. The labor unions, which had been solid supporters of freer trade in the 1960s, had by the early 1970s switched sides as import competition surged from Japan, Germany and other countries in industries such as clothing, cars and steel. The unions also warned against growing outsourcing to Mexico, which was evident as early as 1968 when RCA began moving its television assembly to Juarez after a series of strikes at its largest plant in Bloomington, Indiana.

While American business mostly favors free trade, there have long been complaints from those industries harmed by import competition, most prominently the steel industry but also textiles and apparel, and at times the auto and semiconductor industries and even farmers competing with fresh fruit and vegetable imports. It is no coincidence that Trump's top advisors are all tied to the steel industry. Lighthizer was a deputy U.S. trade representative under Reagan, and led the negotiations that persuaded Japan to curb steel and auto exports to the United States (Reagan's free trade beliefs were leavened with political pragmatism, a formula his successors did not always follow). Lighthizer later became the go-to trade lawyer for steel companies using U.S. anti-dumping and countervailing duty laws to restrict imports. Ross made a fortune investing in distressed U.S. steel companies in the early 2000s, and then turning them around in no small part due to tariffs on steel imports imposed by the George W. Bush administration. Dan DiMicco, who has led the trade transition team for Trump, is the former chief executive of U.S. steelmaker Nucor, and author of the 2015 book American Made: Why Making Things Will Return Us to Greatness.

The trade skepticism now embodied by Trump's team took time, however, to seep into congressional politics, and still longer to make its mark on presidential politics. When Congress voted in 1979, for example, on the Tokyo Round world trade agreement, it passed the House of Representatives by a vote of 395-7 and the Senate on a vote of 90-4. It would be hard to get that much support today for renaming a post office. The U.S.-Canada Free Trade Agreement, which was so controversial north of the border that a national election was fought over the issue in 1988, breezed through the U.S. Congress the same year, with a vote of 366-40 in the House.

By the time of the NAFTA vote in 1993, however, the politics had begun to shift. Clinton was able to win approval by a vote of 234-200 in the House, but fewer than half of House

Democrats voted with him, even after he had tried to appease his own party by forcing Mexico to accept supplemental agreements to strengthen its environmental regulations and labor standards. Deals like NAFTA that linked the United States with much lower-wage economies proved a much harder sell in the United States, with the public fearing—not without good reason—that manufacturing investment would chase the cheap wages. Clinton was unable to win congressional approval to negotiate more trade deals. President George W. Bush did get so-called "fast track authority" from Congress in 2002—optimistically re-branding it as "trade promotion authority"—but only after Republican House leaders held the vote open for an hour and strong-armed several members to switch their votes. The Bush administration's trade agreement with Central America similarly passed in the House by just two votes in 2005.

The real turning point, however, was China's entry into the WTO in 2001. Presidents have long made the mistake of over-selling the benefits of trade agreements. When NAFTA was up before Congress for example, President Bill Clinton's team promised that stronger economic growth in Mexico would reduce illegal migration to the United States—this right before a decade in which the number of illegal migrants quadrupled from 3 million to 12 million. With China, Clinton sold it as a "one-way trade agreement" that would require China to lower its high import barriers while the U.S. left its tariffs in place. Clinton called it "a hundred-to-nothing deal for America when it comes to the economic consequences." Instead, China's entry into the WTO marked its emergence as the most formidable economic competitor the United States had even seen. With multinational companies confident the United States could no longer threaten punitive tariffs on China, investment soared, and exports followed. Between 2001 and 2015, the annual U.S. trade deficit in goods with China quadrupled from $83 billion to nearly $370 billion.

This growing import competition had its most serious impacts in the manufacturing states that Trump swept in his electoral college victory. Even with the rise in Japanese competition in the 1970s and 1980s, U.S. manufacturing employment had remained fairly steady at about 17 million jobs, and stayed there in the 1990s even as production soared due to greater automation. But in the 2000s, some 6 million manufacturing jobs disappeared—the victim of greater automation, two recessions, and growing import competition from China. The best academic research suggests that trade probably accounted for 20 to 30 percents of those job losses. And these were not just any jobs—they were jobs that paid decent, middle-class wages to those with modest levels of education, and in turn those wages helped support the economies of hundreds of communities across the country.

While the Obama administration had tried to address some of the challenges facing those workers—by expanding health care coverage, for example, and boosting retraining programs through Trade Adjustment Assistance—these efforts never touched more than a fraction of those affected. As a result, Obama's championing of further free trade deals, such as the Trans-Pacific Partnership with Japan and 10 other Pacific Rim countries, became an increasingly hard sell to voters. Vermont Sen. Bernie Sanders ran a formidable challenge in the primaries in part by denouncing TPP and other trade deals, underscoring the rising danger of an anti-trade backlash even before Trump championed the issue in the general election campaign.

The downturn of the 2000s was enough to tip the politics of trade over to Trump and the trade skeptics. Of the 10 states hardest hit by manufacturing jobs loss in that decade, eight of them went for Trump. Research by Mark Muro and his colleagues at Brookings similarly shows that Trump's support was concentrated in those places left behind by a fast-changing global economy. Trump won far more counties than Clinton—some 2,600 compared to 500—but those counties make up just over a third of total U.S. economic output.

Trump's approach to trade is all about bringing production and jobs back to those beleaguered communities, to the smaller town and cities like Youngstown or Flint that were built around manufacturing employment. It is an approach that may help some places that have been neglected for too long, but it also poses great dangers for an economy that is now deeply tied in to the global market, especially the big cities that are the country's growth engines.

Trump's trade strategy requires pushing against market forces, persuading companies to make investment location decisions they might not otherwise make. While this smacks of the "industrial policy" that Republicans have long decried, it could be a positive turn. Michael Porter and Jan Rivkin of the Harvard Business School have argued that U.S. companies should do more to build their presence at home—by investing in the U.S. and sourcing from local suppliers, for example, and by offering more apprenticeships and training to U.S. workers. Trump's Twitter blasts are a crude way of pursuing similar ends. Trump could also help by doing more to crack down on foreign government subsidies to companies; it was no surprise, for example, to learn recently from the New York Times that the production of Apple's iPhone in China was greased by billions of dollars in Chinese government subsidies that lowered the costs of construction, transportation, energy and even worker recruiting. And while Trump's claims that China has depreciated its currency for competitive advantage are outdated, that was in the 2000s and could again become a huge problem. Former George W. Bush trade representative Robert Zoellick—the embodiment of establishment trade policy—recently came out in favor of the U.S. using more aggressive tactics to crack down on currency manipulation.

Trump will need a lot of help from Congress as well. The biggest carrot on the table for boosting domestic production is the House Republican blueprint for corporate tax reform, which has promised to introduce "border adjustability" into the tax code. The goal is to mimic the advantages that accrue to Japan, China, Mexico and the European economies that use a "value-added tax" which is rebated on exports and charged against imports. But big U.S. retailers like Wal-Mart and Target are already pushing back, warning that border adjustability "would level higher taxes on everyday items like food, coffee, toys and even cell phones." The tax fight promises to be a long and difficult one.

The greater danger is that Trump's economic nationalism will slide over into outright protectionism. It is one thing to dangle limited tariffs as a tactic for forcing foreign markets to open to U.S.-made imports; Reagan and Clinton both did so with Japan, to some positive effect. But it is another for the White House to use tariffs in a targeted and punitive way against selected countries or companies, as Trump has threatened. And unlike in the Reagan and early Clinton era, such a move would clearly now violate the commitments made by the

United States when it helped to create the World Trade Organization in 1994 and agreed to refer trade disputes to adjudication by an international tribunal in Geneva.

Other countries will not stand idly by. Even before Trump has taken office, China has warned that it will respond "tit-for-tat" against any aggressive trade actions by the new administration by blocking U.S. exports such as soybeans or Boeing aircraft. A full-out trade war would do enormous damage to the U.S. economy; the Peterson Institute for International Economics has forecast that if Trump imposes high tariffs on Chinese and Mexican imports, the U.S. economy would be thrown into recession, at a cost of some 4 million jobs. The harm would be especially large to the big cities and to farmers selling their goods and services across the world. The vocal minority of losers from trade that Trump has championed would suddenly face a vocal majority of the winners from trade who would find their prosperity under threat.

There was a reason that presidents from Roosevelt onward came to embrace freer trade: The United States and other countries had tried the nationalist alternatives in the late 1920s and 30s, and the damage was enormous. Trump may be able to craft a modern version that tilts the trade playing field more in favor of the United States without destroying it entirely. But he is playing a dangerous game.