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The Consequences of Donald Trump's Trade Policies©

by Pierre Vercueil

Hi there and welcome back to a brand new episode of EconoMag here on EnglishWaves. Starting in 2015 Donald Trump has dominated the airwaves following the announcement of his candidacy for US president. His election campaign so far has been controversial to say the least: Trump has come forward with both shocking and wild policy propositions ranging from building a wall between Mexico and the United States, to temporarily banning all Muslims from entering the country. But what would be his economic policies? Trump has talked tough about US trade relations with two of its main trading partners, China and Mexico.

Trade has been one of Donald Trump's strongest selling points so far. "China and Mexico are killing us", he has continually told crowds of voters. At the core of his message is that he is the only candidate who can fight back for America, the implication being that it's time to get tough with trading partners by introducing heavy taxes on their exports as they cross US borders. Trump maintains that this will bring jobs and prosperity back to the United States.

To understand what getting tough on trading partners means, let's consider the current trade policy regime under President Obama. The US manufacturing sector, such as the car industry, relies heavily on imports of Chinese steel and goods made by factories in Mexico, where labor costs are low. In economic terms, this means that the US manufacturing industry has in large part integrated China and Mexico into its supply chain – it can't deliver the end product, in other words, a car, without inputs from outside the US. Because many of these inputs are so crucial to industry in the US, there are currently very low import tariffs on those goods. For example, the US currently imposes a 2,9% import levy on non-agricultural Chinese goods.

Mr. Trump holds that China is "killing the US" as China's import tariffs are higher than those of the US: China's tariff for non-agricultural goods is 5% against 2,9% in the US. Donald Trump would have the US enter a "trade war", by raising the US's tariffs on Chinese goods. By how much you ask? 45% and 35% on Chinese and Mexican imports,

respectively. In theory this would protect local industries against cheap Chinese imports, saving jobs and stimulating local manufacturing. But would this really be the case?

Mr. Trump's plan could actually result in US recession – in other words, negative economic growth. First, higher tariffs on imported manufacturing inputs mean that local industries have higher production costs. Any industry facing cost pressure is likely to shed jobs, not create more! Secondly, Mr. Trump assumes that China and Mexico won't retaliate with their own increased tariffs on US goods. Once again the car industry is a good example here: US car manufacturers sell their cars locally, but also internationally. Higher Chinese tariffs imply higher prices of US goods in foreign markets, making them less competitive. This places pressure on US industry. Some estimates point to 4 million American workers losing their jobs should a President Trump enter the US into a trade war. On top of that, some analysts predict that another 3 million jobs would also not be created that otherwise would have been.

For the moment this is all hypothetical of course, as Mr. Trump has not yet won the Republican nomination, let alone the US presidency. However, his remarks highlight the dangers of promises that might sound appealing in the heat of the moment, but have little basis in sound economic policy. Join us again next week for a brand new episode of EconoMag here on EnglishWaves.