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5 on 45:
On Trump’s trade executive orders

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PITA: You're listening to 5 on 45 from the Brookings Podcast Network: analysis and commentary from Brookings experts on today's news regarding the Trump administration.

BAHAR: My name is Dany Bahar and I'm a fellow at the Global Economy and Development program here at Brookings. President Trump just signed two executive orders as part of his campaign promise to put in place what he calls fair trade policies. The executive orders have been timely, scheduled just a week before the President of China arrives to the U.S. to meet the President. China is a country with which the U.S. has the largest trade deficit of about $300 billion as of 2016. Other countries with large trade deficits are Mexico, Japan, and Germany, yet the combined trade deficit of these three countries is still smaller than with China only.

One of the two executive orders mandates the administration to complete a study within 90 days to examine trade deficits country by country and product by product. This study will inform President Trump on the steps to be taken with respect to trade policy. I can tell you a little bit of what this study will find. With respect to China, the products with the largest trade deficit are all sorts of manufacturing goods, such as furniture, clothing, toys, plastics; as well as electrical equipment such as televisions, sound systems, home appliances, computers, car parts, batteries, and others. When looking at Mexico, the trade deficit is concentrated in a smaller number of products that include oil, cars and car parts, agricultural products including lots of avocados; as well as electronics, clothing, and furniture.

Now, how is study going to be helpful? Well, first of all, I actually applaud President Trump on his desire to use data and to have the intention to engage in evidence-based policymaking. Based on what we have seen during these first two months of the administration, this is actually good news. But if the goal of this study is to define new tariffs in particular products, this would be a mistake. Tariffs would punish consumers that buy those imported products, and American firms that use the imported intermediate goods in their production process. Imposing tariffs would result in consumers paying more and American firms acquiring more expensive inputs, and thus becoming less competitive. Furthermore, imposing tariffs wouldn't necessarily reduce a trade deficit. Importers would look to import those goods from other locations beyond China or Mexico, so the trade deficit would move from China or Mexico to other countries. But even if American consumers and American firms start purchasing more goods made in the U.S., from American producers, instead of importing them, the dynamics in the exchange rate that will follow will likely restore the trade deficit to levels that are similar to the pre-tariff ones. Also keep in mind that as a member of the World Trade Organization, or the WTO, the U.S. is not supposed to impose different tariffs to other WTO members such as China and Mexico.

Yet, the numbers can inform the administration on engaging in actions that could be reasonable. I can think of a number of suggestions, and here are three. First, renegotiate standards on labor and environmental regulations. Is most of the trade deficit concentrated in industries that face very poor regulation in terms of worker protection or environmental concerns in countries like China and Mexico? Well, if workers in Mexico are working extra hours without being paid or firms in China have no restrictions on CO_2 emissions, for example, some Mexican and Chinese goods could be more competitive as compared to the U.S., and this would be reasonable for the country to bring up in possible renegotiation of trade deals. Of course, this is not an easy task because tracking the enforcement of regulation is a very subjective matter, and therefore it may not even be feasible.

The second suggestion is to use the data to focus on particular ongoing trade disputes. The administration can focus its efforts on trade disputes – which are, by the way, very long and complicated to begin with – that are in particular industries that have very large trade deficits. If these disputes are based on actually unfair trade practices by other governments such as expert subsidies or dumping—which, by the way, are banned by the WTO—then solving these disputes could help restore competitiveness for U.S. goods and therefore eventually reduce the trade deficit.

But all in all, even if I applaud President Trump’s efforts to engage in evidence-based policymaking, it is still important to keep in mind that trade deficit is not a measure of failure. It is just an accounting reality. Forcefully trying to reverse the deficit won’t result in more jobs for Americans. It is technology, not trade, that explains the vast majority of lost jobs in the manufacturing sector in the U.S. since the mid-1990s. Therefore, the third recommendation I have for this administration is actually to forget for a minute about the trade deficit and to stand out from all previous administrations by providing proper safety nets to workers that have lost their jobs regardless of whether it was lost due to technology or to trade; and help these workers to transition to other industries or even to retirement. That is the pressing issue to be solved for many struggling Americans that were employed in the manufacturing sector.

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