Trump's troubling trade practices

Escalating tensions could threaten pandemic recovery

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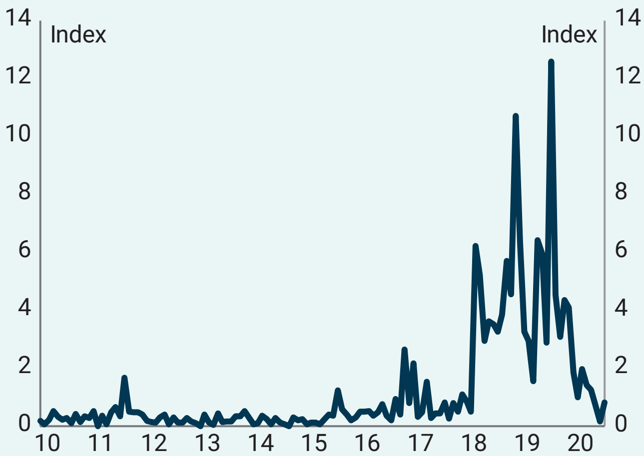
A key characteristic of US President Donald Trump is his open hostility to established trade rules and clear preference for managed trade. Falsely arguing that the trade deficit reflects the US' commercial partners taking advantage of America, and not a fundamental lack of national savings, he has sought to alter key relationships to reduce the trade deficit – to no aggregate effect. In fact, the US trade deficit in goods is 22% higher than it was when the president was inaugurated. More telling, once oil and gas are removed from the equation, the US trade deficit in goods is nearly 50% higher than it was in January 2017.

For a time, Trump's efforts to reduce the trade deficit through negotiations, threats, interventions and manipulation led to historically high measures of trade uncertainty. It may seem like the distant past, given the pandemic, but the US-China trade war and its potential evolution were the dominant risk to the global and US outlooks for much of 2018 and 2019. The uncertainty was not limited to China. On-again and off-again threats to pull out of the North American Free Trade Agreement, near constant threats to penalise Mexico, regular intimidation of European auto manufacturers, and the perversion of national security clauses to limit steel and aluminium imports, stand out in a long list of trade irritants. These conflicts created much unpredictability, affecting global business sentiment and activity. The high levels of risk probably contributed to the dollar's strength during this period, reducing US competitiveness, despite repeated, not-so-subtle attempts by Washington to talk the dollar down.

Significant market volatility created from a sharp rise in trade uncertainty in late 2019

US Equity Market Volatility Index, trade policy componentx



Source: Scotiabank Economics, PolicyUncertainty.com

This uncertainty has come at a cost. In the US alone, we estimate that the sharp rise in trade uncertainty resulted in a cumulative reduction of nearly three-quarters of a percentage point in the level of economic activity by Q4 2019, relative to a scenario in which trade uncertainty was at its historical average. This is a formidable headwind, with global economic and policy implications.

Covid reprieve

In the early weeks of Covid-19, President Trump seemingly set aside his focus on trade issues. Our hope had been that with a 'phase one' deal with China agreed and the intense efforts needed to manage the pandemic, there would be more stability on the trade antagonism and policy front. This lasted for a while, but the need to assign blame for the effects of the virus in the US quickly led to a more contentious position against China, a threatened re-imposition of aluminium tariffs on Canada, and a renewal of concerns about European trading practices.

While there is little opportunity to inflict much trade-related economic harm for the remainder of his mandate, recent statements by Trump suggest a second term would come with a potentially significant escalation of global trade tensions. Of particular concern is an implied acknowledgement of the need to be economically self-sufficient. Recovering ground lost to the pandemic is going to be challenging. Escalating trade tensions would be a strong threat to recovery efforts, one which the US and global economies cannot afford. ●

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