

Article on
Trump and International Trade

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Trump and Trade **First of a two-part series**

June 10, 2017

President Trump has hit a bull's eye with his approach to international trade agreements. To see why, I use a consumer product, the kitchen toaster, to illustrate my point.

Taking inflation into account, Americans purchase their consumer items at lower prices than in the past. The availability of inexpensive goods, such as toasters, is often lauded as the result of trade agreements (tariffs) with other countries.

The idea of imposing a tariff is for a country to protect its workers from foreigners who are exporting the same goods---say, toasters for this analogy---into the country and competing with the market for local toasters. An import tariff is essentially a tax that raises the cost of the foreign toaster.

It is a delicate and complex balance: How to attract the consumers in the foreign country, yet protect the consumers of one's own country.

In the past, toasters have been churned out by people in other countries who work for lower wages, thus resulting in a cheaper foreign toaster than a locally manufactured toaster. Yet America has done little to protect its toaster industry and its manufacturing base in general.

Thus, in relation to trade imbalances, the American toaster has become toast to the Chinese toaster. Most consumers do not care. A toaster by any other manufacturer is still a toaster. The toaster shopper looks at the price and functions of the machine, typically not where it is made.

Beyond Wages and Prices

However, wages of toaster makers and their associated prices for toasters are not the entire picture. Many people are under the illusion that lower wages in countries such as China is the sole reason for the decline of jobs (especially in manufacturing) in the U.S. That is certainly one factor and a major one.

But there are others: (a) increased automation of formerly manual jobs, (b) loss of interest (and honor) in blue collar employment, (c) over emphasis on young people acquiring a four-year college degree on a general subject, instead of a shorter period to learn about specific occupations, (d) America's de-emphasis on trade schools, (e) marginal pay that discourages potential workers from entering low-wage jobs, and (f) America's low tariffs.

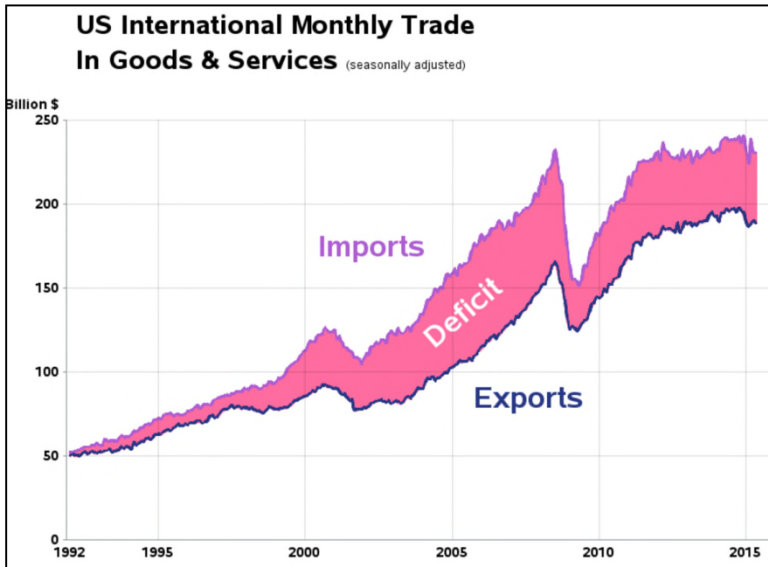
These issues are discussed in this two-part series.

Leaving the Trade Agreement Sand Box

President Trump signed an executive order in April directing his administration to review all trade contracts for possible abuse. He has withdrawn from the Trans-Pacific free trade deal. The upshot is that Mr. Trump is not in favor of the present arrangements.

The initial reactions to these orders were mostly negative. The criticisms focused on two arguments. First, America was abandoning its role as the world's leader of free trade and of leadership in general. Second, international trade agreements benefited the American consumer, and therefore, the American economy.

Referring to the figure accompanying this article: Granted, America has been leading the world in international trade agreements, but this figure shows these agreements have not been in America’s interests.¹



It is reasonable to question how a country that has experienced decades of trade imbalances is benefiting from this arrangement.

I am told by advocates of international trade that these agreements form the lynchpin of happy Walmart customers. Perhaps. But a cheap toaster in Walmart means little if the American citizen has no job or insufficient income to make the purchase.

The second article in this series explores the other reasons for America’s international trade deficit. In the meantime, the table in this article can give the reader some food for thought. It reflects this year’s U.S. trade in goods with China (figures are in millions of dollars).²

U.S. Trade in Goods with China.

Month	Exports	Imports	Balance
January 2017	10,071.9	41,376.3	-31,304.4
February 2017	9,797.8	32,763.4	-22,965.5
March 2017	9,625.8	34,204.7	-24,578.9
April 2017	9,839.7	37,471.9	-27,632.2
TOTAL 2017	39,335.3	145,816.3	-106,481.0

¹ http://blogs.sas.com/content/sastraining/files/2015/07/us_trade_balance1.png.

² <https://www.census.gov/foreign-trade/balance/c5700.html>.

Trump and Trade **Second of a two-part series**

June 10, 2017

The first article in this series makes the claim that President Trump's skepticism of America's international trade agreements is well founded. I agree and I also admit that I was a late comer to this notion.

For example, I thought that NAFTA (the North American Free Trade Agreement) would stem the flow of illegal Mexican immigrants into the United States. That did not happen. As well, I assumed the net balance between the two countries' flow of goods would even-out. After all, why enter into a trade agreement if it is not beneficial to one's own economy? That did not happen either.

Another pertinent point was my ill-founded belief that America's international trade agreements would be monitored and mentored by the World Trade Organization (WTO), to which the United States is a member. Again, I was wrong.

To see why, consider that 77 percent of America's trade deficits occur with nations that also operate under the WTO's rules.¹ Second, consider this quote from *The Economist*, a journal that has been disposed to favor trade agreements for decades:

“America's tariff commitments under the WTO are indeed lower than other countries.’ In 2015 America applied for an average tariff of 3.5 percent, compared with 4.0 percent for Japan, 5.1 percent for the EU and 9.9 percent for China. ... That sort of thing is hard to square with Mr. Trump's vision of reciprocity.”²

The proponents of WTO state that WTO's arrangements result in the boosting of trade flows between 50 and 100 percent. Fine, but to whom do these trade flow benefits accrue? Certainly not to the unemployed former factory worker in Detroit.

Where Does the Blame Lie?

The United States is at fault for allowing the trade imbalances that have contributed to the decline of its manufacturing base. It is reasonable to assume that America did this with admirable intent: to raise the quality of living of the citizens of other nations.

These arrangements have also been to the benefit of selected commercial segments of our nation. For example, higher tariffs against certain goods coming into America that could damage an American industry. Overall, we alone are both the villains and heroes to this play.

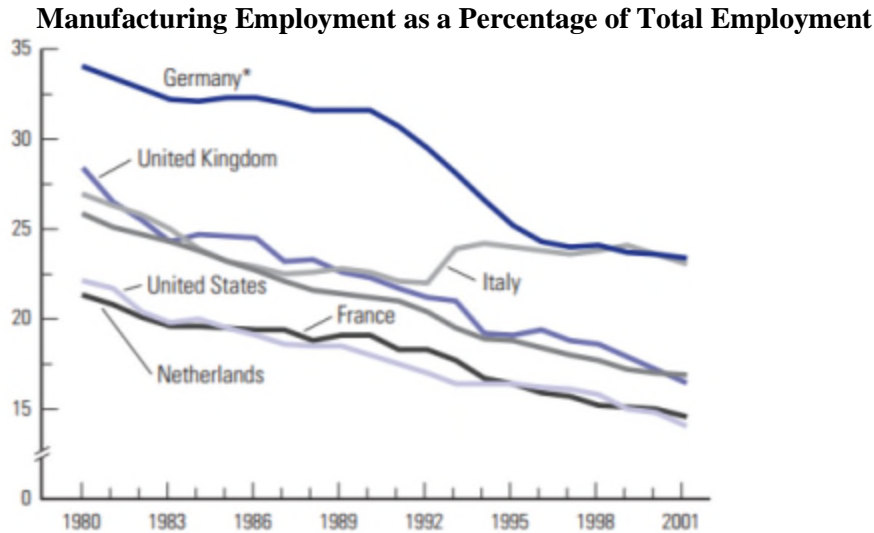
To cite examples, consider our penchant for fostering, almost insisting, that our youth pursue a four-year college degree. It is known that people with a conventional college degree make much more money in their lifetime than those who do not have this level of education.

So, what's the beef? The beef is that many jobs do not require a four-year college degree. in social psychology, interior decorating, or clothing design. Our nation needs more nurses, computer programmers, and those who know how to plumb toilets and plot landscapes.

¹ “Make his Day,” *The Economist*, May 13, 2017, 22.

² Ibid.

I am not denigrating higher-level education. I am one of its products. I am lamenting America's forsaking other forms of education. For example, see the figure in this article.³



The figure shows manufacturing employment as a percent of total civilian employment in several countries. All are declining, the subject for another article (increased automation, as one example). The point is that Germany has kept intact its manufacturing base and its associated trade schools. Thus, it does not rely---as much as America does---on getting widgets from China. It makes its own widgets.

This figure reflects some of the thoughts behind Mr. Trump's Twitters about international trade agreements: recovering our manufacturing infrastructure.

In the End, It's the End

Mr. Trump's initiatives regarding trade agreements are laudable. But this idea should be kept in mind: In the end, the issue of trade--- based on manual manufacturing dominance---will be rendered moot because of four interrelated factors (I emphasize interrelated):

(1) The increased use of artificial intelligence (AI) in the workplace will delegate more power to computers and less to workers. (2) The continued increase of worker wages in other countries will eliminate what is now cheaply made "toasters." (3) The increased capabilities of 3-D printing will further reduce the need for manual labor. (4) The expanding capacity of Internet and wireless-based capabilities will continue to erode the efficacy of manual cross-border trade transactions.

In the meantime, America can benefit from international trade agreements, but only if they are balanced for all parties. As the Donald might say, "Let's make a deal!" But only if it is fair.

³ https://www.nist.gov/sites/default/files/documents/2017/05/09/DOC_MFG_Report_Complete-2.pdf.