



Lawrence H. Summers



FT

Financial Times Column

Donald Trump's trade policy violates every rule of strategy

From tweet to tweet, official to official, nobody can tell what his priorities are

Donald Trump has put aggressive trade policy at the centre of his approach to the economy. No other economic subject has received such sustained presidential attention or generated so much controversy.

This is problematic as most economists agree that changes in trade policy are unlikely to have a big effect on growth in employment or over gross domestic product and that liberalising trade is likely to do more for US prosperity than managing trade.

But take as a given the US president's mercantilist premise that the central priority of American economic policy should be achieving more fairness in opening up markets around the world. Even given this dubious judgment about ends, the US is proceeding in a remarkably unstrategic and ineffective way. Indeed it is violating almost every strategic canon.

A first rule of strategy is to have well defined objectives so that success can be judged and your negotiating partners are not confused about what you want. Is the US's primary objective to reduce its trade deficit overall or just with particular countries? Is it to protect employment in politically sensitive sectors such as steel and automobiles?

Is it to stop commercial practices such as joint venture requirements that unfairly penalise American companies doing business in foreign countries? Is it to gain more market access for US companies regardless of how successful they are likely to be, as in the case of increased access for the US auto industry to the Korean market?

From tweet to tweet, and senior official to senior official, it is impossible for anyone to know what this administration's priorities are. When everything is presented as a top priority, as often seems to be the case, nothing can really be a top priority. No one can be confident that making concessions will resolve disputes. After all, when China's current account balance was approaching 10 per cent of GDP, it was a priority for the US to bring it down sharply. Today it is running below 1.5 per cent of GDP and America is more truculent than ever towards China on trade.

A second rule of strategy is to unite your friends and divide your potential adversaries. The US seems to be doing the opposite. Surely, China stands out as a competitor in terms of economic scale, growth, extent of government economic intervention and in areas such as artificial intelligence.

Yet, after alienating its Asian allies by pulling the plug on the Trans-Pacific Partnership, the US enraged all of its G7 allies with the imposition of tariffs on steel and aluminium as well as making further threats that have caused them to doubt the US commitment to the rule of law in global trade.

As with the Obama administration's disastrous initial shunning of the China-led Asian Infrastructure Investment Bank, the result has been to cause most of the rest of the world to take China's side against the US.

Decades of sustained efforts to foster a benign relationship with Mexico are also being squandered. The current US approach to Mexico could hardly be better designed for the objective of electing a leftist radical as president.

A third rule of strategy is to use as leverage threats that are credible in the sense that they do more damage to those you are negotiating with than they do to you. "Stop or I will shoot myself in the foot" is a singularly ineffective threat.

The recently imposed tariffs on steel fall into this category. The US has fewer steelworkers than it has manicurists. The market value of the US steel industry is about 0.1 per cent of the stock market. Yet steel is a key input into industries throughout the economy that employ about 50 times as many people as the steel industry does and compete internationally.

By raising the price of steel the US hurts much more of its economy than it helps. Why does the White House think this counts as leverage against the nations it competes with? Especially when in all likelihood they will retaliate in highly strategic ways, with international legal support, by limiting imports from key US industries.

President Trump's trade policies will raise the prices Americans pay for what they buy. They will reduce the competitiveness of the US economy. They will succeed where our traditional adversaries have failed in uniting much of the rest of the world in opposition to us. They will reduce our legitimacy and power by demonstrating our lack of competence. The sooner they are radically revised the better off the US and the rest of the world will be.

The writer is Charles W Eliot university professor at Harvard and a former US Treasury secretary.

www.larrysummers.com