



Intelligence MEMOS

From: Dan Ciuriak and Meredith Crowley
To: Canadians Concerned about Trade Wars
Date: June 20, 2018
Re: WEAPONIZING UNCERTAINTY: TRADE POLICY UNDER THE TRUMP ADMINISTRATION

The Trump Administration is deploying uncertainty as a new weapon in trade protection.

Our new C.D. Howe Institute [paper](#) shows that uncertainty acts like a non-tariff barrier that impedes trade and investment. Importantly, unlike actual tariffs, uncertainty is only indirectly observed and not subject to the disciplines of World Trade Organization agreements or bilateral or regional free trade agreements.

Uncertainty is being deliberately deployed as a non-tariff barrier with the stated purpose of forcing US companies to repatriate manufacturing activity that has been moved abroad – including automobile production that moved to Mexico, a NAFTA partner – and to reduce incentives for US firms to invest abroad by raising the risk of their facing restrictions on their access back to the US market.

Under the Trump Administration, US trade policy has been characterized by implausible claims, demands, and threats, which are then retracted, then re-asserted, and so on. The list of these uncertainty-inducing actions includes the following:

- Withdrawal or threatened withdrawal from major US trade agreements.
- Undermining the global institutions of rules-based trade, in particular the WTO.
- Threatening tariffs on US imports (under provisions of US law that had been mothballed by previous administrations, such as NAFTA's Section 232 national security tariffs).
- Outlandish, unworkable proposals to manipulate trade flows that appear deeply uninformed: threats against US multinationals, proposing negotiations that would break-up EU policy solidarity, flip-flopping on a policy for China.

The weaponization of uncertainty by the Trump Administration to effect change in the United States' trade relationship with the world cannot be ignored. The uncertainty remains heightened, because no safety catches have yet been put on the potential triggers for all-out trade wars.

No one knows, for example, how the tit-for-tat around tariffs on steel and aluminum will play out. The expiry of the deadline for the exemption of NAFTA parties appears to have been due to the US insistence on one of the key weapons of uncertainty – the 5-year sunset clause. The outcome of US-China talks on a China import package following three rounds of shuttle diplomacy remains thoroughly opaque, despite the current bluster. And there is more uncertainty to come: the assertion of extra-territorial reach by the United States of its renewed comprehensive sanctions on Iran following its unilateral withdrawal from the nuclear deal, which it signed with Britain, China, France, Germany, and Russia, has triggered a countermove by the European Union forbidding its companies to comply. Companies will be caught in the crossfire.

Trade costs have risen due to a ratcheting up of political risk; the economic welfare impacts are in the pipeline from reduced business confidence in the global commitment to the rules-based, liberal trading system that operates under the WTO. We may wind up paying the costs of this lost confidence for years – even if full-blown trade wars do not erupt. Trade wars are not good and the uncertainty their threat generates makes them impossible to win.

Dan Ciuriak is Fellow-in-Residence, C.D. Howe Institute; Senior Fellow, Centre for International Governance Innovation; Associate, BKP Development Research & Consulting GmbH; and Director and Principal, Ciuriak Consulting. Meredith Crowley is a Lecturer at the Faculty of Economics, University of Cambridge.

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