

Intelligence MEMOS



From: Dan Ciuriak
To: Canadians Concerned about Tariffs
Date: August 3, 2018
Re: **TRADE PEACE IN OUR TIME?**

Following a campaign laced with invective against America's trade agreements, including the World Trade Organization (WTO) Agreement, the North American Free Trade Agreement (NAFTA), and the Trans-Pacific Partnership (TPP), the world absorbed for the better part of a year and a half a rising tide of US protectionism and an escalating level of threats aimed at disrupting a global trading system built up over decades of negotiations.

However, even as late as the imposition of tariffs on steel and aluminum imports based on patently non-credible national security grounds, US policy appeared to steer just within the bounds of US commitments. Notwithstanding the rhetoric, trade war had not yet broken out. It was possible to think that this was all just negotiating bluster.

That is no longer the case. With the tariffs on US\$34 billion of imports from China and China's retaliation, Donald Trump crossed his trade Rubicon and China, with its tit-for-tat retaliation followed suit. The threatened escalation, still mounting by the day in terms of coverage of imports and level of tariffs, would thoroughly shred existing trans-Pacific supply chains and trade. Tariffs on US auto imports, including from Canada and Mexico, which are still being studied at Mr. Trump's instructions, would similarly shred NAFTA supply chains.

From a Canada-US perspective, there are no significant problems to fix – only minor irritants – and powerful grounds for not fixing what is not broken. Consider the following:

- There is a near-perfect balance of Canada-US trade, and a surplus for the United States in manufacturing;
- A dairy quota expansion would be an easy fix for the dairy dispute (rhetoric aside), if there is political will in the United States, given the concessions that Canada already negotiated in the TPP;
- Sub-regional interests – and particularly agricultural interests in the Midwest and Canadian Prairie provinces, which include the deeply integrated beef sector – obtain major benefits from NAFTA.

But it is important to take account of the fact that the great drivers of US ambitions in continentalism were autos and energy and the situation has changed in these sectors since NAFTA came into effect due to the shift of auto production to Mexico and the fracking revolution in energy supply in the United States. This weakens the “big picture” case for NAFTA in the United States at the national level.

Donald Trump has made clear that he does not like NAFTA. There is no “Fortress North America” in his vision – it is America First. Mr. Trump campaigned on disrupting existing deals and repatriating US supply chains back within US borders. He has moved decisively on those issues, just as he has on other controversial measures ranging from withdrawal from the Paris Accord on Climate Change, withdrawal from the Iran nuclear deal, moving the US embassy in Israel to Jerusalem, boosting military spending (even above the ask from the Pentagon), tax cuts, and deregulation.

By contrast, he has not delivered any significant trade liberalization agreement. The apparent openings to trade liberalization made recently by the signal that the United States will seek re-entry into the TPP and the launch of talks with the EU on “zero for zero” on tariffs, subsidies and non-tariff barriers seem intended, like the announcement of \$12 billion in subsidies for the farm sector, to keep President Trump's political support in place by offering hope of early relief from the damage inflicted by the tariff policy, than a genuine about face from protectionism.

By the same token, this increases the onus on state-level and province-level politicians to block any derailment of NAFTA. This is necessary because, when this all ends, Canada and the United States will still be each other's biggest trading partners.

As for the wider picture, the outbreak of trade wars, with no obvious off-ramp back to trade peace, is worrisome. Markets have remained stable to date; however, as the full magnitude of the conflict becomes clearer, and the implications for the global trading system are digested, this stability cannot be taken for granted.

The only one having a quiet summer on the golf course may be President Trump; everyone else will be worrying.

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