Tilting at windmills

Posted at: 23/08/2018

Highlights

In U.S. President Donald Trump's simplistic world-view, slapping tariffs on the U.S.'s main trading partners — Canada, China, the European Union, and Mexico — will reduce U.S. trade deficits, bring back well-paying manufacturing jobs, and make America great again.

This has such populist appeal — some 73% of Republican voters support the tariffs according to a PEW Research Center poll in July — that pro-trade Republicans in Congress have largely been silent on the issue.

Trade with China

Since China, for instance, exported some $505 billion worth of goods to the U.S. last year but imported only $130 billion, Mr. Trump assumes that China could not match the escalation in tariffs since it has a weaker hand.

Why will this not be effective?

- This approach simply ignores the complexity of global supply chains. It also glosses over underlying problems with the U.S. industrial structure.
- These changes, rather than globalisation, are responsible for the stagnation of average U.S. wages in real terms for almost 40 years.
- Non-Chinese owned companies account for almost 60% of Chinese exports to the U.S.
- Much of this consists of very specialized parts required by U.S. factories to make a variety of products ranging from out-board motors for boats to computer routers.
- Since these non-Chinese companies cannot easily relocate their operations to other countries, the net result is that the burden of the tariffs will be felt by consumers in the U.S.
- The Trump administration's imposition of a 20% tax on washing machines in February led to its price going up in U.S. stores by 16.4%.
- U.S. imports from China also include products which contain parts made in other countries. The Peterson Institute for International Economics estimates that 87% of computers and electronics, which constitute the largest share of Chinese exports to the U.S., include parts and financing from other countries like South Korea, Japan, and the U.S. itself.

So not only does this limit the negative impact on Chinese manufacturing practices, it also affects other countries.

How this could hurt US instead?

- The retaliatory tariffs China has imposed on U.S. products have also had a negative impact on German car producers in the U.S. where BMW has its largest factory in Spartanburg, South Carolina rather than in its home country.
- By raising duties on soybeans and pork, it has struck at Mr. Trump's key constituencies of support in the U.S. Midwest.
- Beijing's tariffs even hit Kentucky bourbon to increase pressure on the Senate majority leader Mitch McConnell who represents that State.
- Similarly, the 25% tariff imposed on Mexican steel exports to the U.S. has had no impact on the Mexican automobile industry.
- The northern Mexican city of Matamoros produces 90% of all steering wheels used in U.S. vehicles and the city is also the largest producer of windshield wipers in North America.
- Instead, these tariffs by raising the cost of production compelled U.S. companies to reduce employment!

The Germany example

- Take Germany as a contrast. Between 2002 and 2008, when the U.S. lost one-third of its manufacturing jobs, Germany lost a mere 11%. How could this be?
- Since most German firms are privately owned, rather than buying back shares, they invested their capital in boosting their productivity.
- German firms include worker representatives on their corporate boards, invest in apprenticeship programmes, and in relevant research and development projects.
- During the recession of 2008-09, instead of dismissing employees outright, German firms reduced work hours and helped retrain workers.
- They thus have a deep pool of skilled labour.

When computers and numerically controlled machines are progressively inducted into production, constant upgrading of labour skills is vital to preserve well-paying jobs. Washington has made no systematic effort to upgrade skills. Mr. Trump has neither the vision nor the inclination to address these structural problems of the U.S. economy.

The Hindu