Smart[im]: Can politicians control trade?

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When Donald Trump was elected US President, investors were aware that he brought with him the risk of global trade tensions or even a full-out trade war. His "Make America Great Again" campaign was based on the idea that the US was in decline and that unfair trade deals contributed to this loss of 'greatness', promising to tear up deals that he thought were unfair to the US. Whilst early in his Presidency there was little more than rhetoric on trade, 2018 has seen Trump go on the attack, with the result being a raft of 'tit for tat' tariffs. However, whilst he tweeted early this year that "trade wars are good, and easy to win", evidence suggests that things are far more complicated.

As one might expect in any war, the countries targeted by Trump's tariffs have responded in kind and, on 1 June, the European Union (EU) imposed tariffs on a range of US goods, including motorcycles, jeans and bourbon. The choice of goods seemed to target the blue collar states from which Trump garners much of his support and few miss the irony that, by attempting to deliver on his campaign promises, he may have placed the very people that supported him in the firing line. Within 48 hours of being hit by an increase in tariff from 6% to 31%, Harley Davidson announced that they would be moving production to Europe. Both Trump and the unions claimed that the company were using the tariffs "as an excuse" and had wanted to make such a move for some time, and it is true that Harley Davidson have been moving production into local markets for many years, with plants in Brazil, Australia and India and plans (announced shortly after Trump came to power) to build another in Thailand. However, appearance is everything in politics and, whatever the truth behind the decision, it may yet mean that something designed to improve his popularity may damage it.

Whilst Harley Davidson is a high profile brand, it employs just a few thousand people worldwide so, whilst politically unhelpful, any move of production overseas would have a limited impact on the US economy. The same is not true of General Motors (GM), and they were the next to wade in to the fray, stating that "Increased import tariffs could lead to a smaller GM, a reduced presence at home and risk (there being) less -- not more -- U.S. jobs". This warning about the global nature of the supply chain and the impact that tariffs can have on it bought an immediate response from White House trade adviser Peter Navarro, who claimed that the effect of tariffs was marginal. However, somewhat contradictorily, he sought to use GM's point that they import a lot of components against them by saying that their car plants had become little more than "assembly plants", with about half the content of an average GM car being foreign. It should be noted that GM are not alone, with Bloomberg reporting that all major US car manufacturers, including Ford, import a substantial share of the vehicles that they sell within the US, and it is obvious why Trump might see forcing US companies to source parts locally as attractive. This may be why, in May, he ordered an investigation into whether car imports pose national security risks under the same 1960s trade law controversially used to impose levies on steel and aluminium. However, whatever the outcome of that review, or any other steps taken, there is no guarantee that the car manufacturers will play ball. This may be because they cannot source the same quality of parts locally, or simply have existing supplier agreements in place that they do not want to break, and the global nature of the supply chain was illustrated earlier this month in the UK.

Whilst Donald Trump has a very clear plan around trade, the same cannot be said about the UK Government. The current lack of clarity around Brexit would appear to be an overwhelming deterrent to establishing new cross-border supply agreements and yet, on 2 July, Tesco announced plans for a "strategic alliance" with French retail giant Carrefour designed to use their joint buying power to cut costs and offer lower prices to customers. The idea of such an agreement between supermarkets that have been rivals for years would have been unthinkable until recently. However, increased competition in the sector has forced companies to secure ever increasing buying power with suppliers, and the Tesco/Carrefour deal is simply the latest. Even so, what is most interesting is that they are prepared to agree such a deal without clarity about future tariff arrangements between the UK and the EU, which would indicate that the needs of the businesses are greater than the impact of tariffs. If that is the case, one has to question to what degree politicians can influence corporate behaviour with them.

In summary, it is unclear how "easy" it is to win a trade war or whether Donald Trump may find out that a supposed vote-winning election pledge proves to be a political misstep. At the same time, with the latter stages of an economic expansion being more vulnerable to economic shocks, and a heightened chance that any such event can tip the economy into recession, using tariffs as a weapon may offer poorly asymmetric risks, with a greater likelihood of a negative outcome, both economically and politically, than a positive one.