

Trump's tough talk on trade faces legislative hurdles

Shawn Donnan in Washington

Donald Trump and his plans to impose punitive tariffs on imports from China and Mexico and rip up trade agreements have drawn the ire of economists and political opponents who argue such moves would lead to a trade war and likely throw the US and world economy back into recession.

“It is not hard to see how a Trump presidency could lead to a global economic crisis,” Democratic rival Hillary Clinton told supporters in California last week.

But there is some good news for the global economy and US trading partners contemplating a potential Trump presidency, experts say. Even if he won November's presidential election the presumptive Republican nominee would have limited powers to deliver on his promises. The US Constitution specifically gives authority over international trade to Congress and the legislature has for decades delegated that power to presidents with strict limits.

In office, Mr Trump would be able to block the rolling out of a vast new Pacific Rim trade deal negotiated by the Obama administration. He could also theoretically, experts say, pull the US out of pacts such as the 1992 North American Free Trade Agreement, which he has labelled a “disaster”. Doing so would require only six months' notice under the deal's terms, although it would likely be heavily opposed by US industry which has spent the past two decades building elaborate supply chains dependent on trade with Canada and Mexico.

However, Mr Trump would struggle to live up to other radical proposals such as imposing a sweeping 45 per cent tariff on China and a similar 35 per cent levy on Mexican imports.

“There is no standing authority for a [US] president to raise tariffs,” says John Veroneau, who served as the top trade lawyer in the administration of President George W Bush and chairs the public policy team at Covington & Burling in Washington. “Tariffs are revenue measures and Congress has the power of the purse.”

Experts like Mr Veroneau caution that there are still plenty of other ways and presidential precedents that a Trump administration could use to ratchet up trade tensions with China. But to do so the Republican would have to limit his ambitions.

US presidents can authorise more limited industry-specific investigations and sanctions against unfair trade practices and Mr Trump's election would open the door for a more aggressive use of anti-dumping and other cases, Mr Veroneau says. US Steel, for example, in recent weeks launched a case seeking a complete ban on imports of Chinese steel in retaliation for alleged hacking attacks by Beijing that is likely to lead to a decision next year and could present Mr Trump with an opportunity to look tough on China.

In a forthcoming paper, Gary Hufbauer, a leading trade expert at the Peterson Institute for International Economics, argues that a number of laws òlong on the statute booksö would give a president Trump the power to impose some tariffs.

Among those is the legal progeny of a 1971 move by Richard Nixon to impose a blanket 10 per cent tariff on all imports into the US in order to force Japan and other big economies to revalue their currencies.

The surcharge, which was part of the so-called Nixon Shock economic package that led to the US abandoning the gold standard, lasted only from August to December of that year. Yet it also led Congress to include a section in the 1974 trade act that grants presidents special trade powers to respond to òlarge and serious United States balance-of-payments deficitsö.

That provision, Mr Hufbauer points out, òseems tailor made for what [Mr Trump] wants to doö regarding China. He has labelled the trade deficit a sign that the US is òlosingö economically.

It would, however, allow him to introduce a tariff of only up to 15 per cent for 150 days before seeking approval from Congress.

Douglas Irwin, an economist and expert on US protectionism at Dartmouth College, says even such a short-term shock could be damaging economically for the US and the history of the 1930s Great Depression showed they were also hard to unwind. òYou are opening up a Pandora's box and it is very hard to stuff all these trade barriers back in.ö

Investors are divided on the impact of the unexpected ascent of the billionaire politician

Mr Trump would not be the first president since Nixon to flirt with protectionism. But again, Mr Irwin says, such moves in the past have been more targeted than what the Republican is proposing.

Ronald Reagan in 1987 responded to Tokyo's restrictions on imports of US semiconductors by slapping a 100 per cent tariff on Japanese colour televisions, computers and power tools. In 2009, President Barack Obama imposed punitive tariffs on imports of Chinese tyres although economists now broadly view it as having done more harm than good to the US economy.

The best hope for many in the pro-trade camp is still that a president Trump would follow a great American tradition and moderate his views on trade.

Mr Obama during the 2008 campaign called for the renegotiation of Nafta but has since evolved into arguably the most pro-trade voice left in American presidential politics. òNo matter how many tariffs we are threatening to slap on other people's goods, no matter how many trade wars we start . . . that is not going to help middle-class families,ö he said recently.

Many Republicans in Congress such as Paul Ryan, the speaker of the House of Representatives, also remain pro-trade, advocates for passing Mr Obama's Trans-Pacific Partnership with Japan and 10 other economies, and maintain close ties to business groups. òThe speaker's position on the issue [trade] has not changed,ö a spokeswoman for Mr Ryan told the Financial Times on the same day he endorsed Mr Trump.