FINANCIAL TIMES
9-2-17

Donald Trump’s divisive delusions on trade

The new administration is trying to sow discord among other nations

Last week was Germanyôs turn to feel pressure from Donald Trumpôs administration over its allegedly unfair practices on currency and trade. This week, it falls to Shinzo Abe, the Japanese prime minister, to try to deflect such accusations by presenting Mr Trump with a list of investments in the US by Japanese companies.

Insofar as Mr Trump has a coherent view of the global economy, it is of a zero-sum world where one countryôs gain, as measured by its bilateral trade surplus, is necessarily another oneôs loss. This wrong-headed view has caused his administration to launch unwarranted attacks against its major trading partners, ordering them to correct problems that either do not exist or on which the US has little standing to threaten retaliation.

Mr Trump has repeatedly asserted that China and Japan are manipulating their currencies. And last week Peter Navarro, an economics professor appointed to head the newly created National Trade Council in the administration, launched broadsides on exchange rates and trade. In particular he focused on the perfidy of Germany, which, he said, was undervaluing the euro and racking up trade surpluses that stole demand from the rest of the world, and undermined growth in the rest of the eurozone.

With regard to currencies, this is obviously wrong. Germany does not control the euro, eurozone governments have not intervened to affect its value since 2000 and, as German finance minister Wolfgang Schäuble was quick to point out last week, Berlin was no fan of the European Central Bankôs super-loose monetary policy that pushed the exchange rate lower.

Mr Navarro has half a point in that Germanyôs longstanding efforts to improve competitiveness by holding down wages and domestic demand helped it to rack up a trade surplus against other eurozone countries. Criticising Germanyôs surplus and its fiscal stance has a long and distinguished history in international economics circles. But tying it to exchange rate policy seems designed to give the US grounds to go beyond criticism to retaliation, and indeed to try to set eurozone governments against each other.

The desire of some in Mr Trumpôs administration to see the EU divided is clear. Mr Navarro said that Mr Trump regards the Transatlantic Trade and Investment Partnership (TTIP), the moribund trade pact with the EU, as in effect a multilateral deal since it involves a variety of different countries. This contention is meaningless when dealing with a customs union that began 60 years ago and negotiates its trade policy across a wide number of areas as a bloc.

A similar dynamic seems to be at play in Asia, where Mr Trump has thrown out the Trans-Pacific Partnership with 11 other Asia-Pacific countries in favour of attempting individual deals with each. His accusations that Japan and China are manipulating currencies make even less sense than his criticism of Germany. As Mr Abe may gently have to remind Mr Trump, Tokyo last intervened against the yen in 2011. For its part, Beijing has been desperately buying, not selling, renminbi over the past year to prevent the currency collapsing.

Playing divide and rule, espousing a strictly mercantilist view of the world and repeating basic untruths about currency manipulation is no way to run international economic policy. If it continues this course, the Trump administration is a clear and present danger to the global trading and monetary system. Other countries must stand ready to resist bullying, and not to let the US drive wedges between them.