New York Times (Nov. 23, 2016)

What Will Trump Trade Policy Actually Look Like? Three Possibilities

Neil Irwin

A Chinese-made banner at the Yiwu International Trade Center this month in Jinhua, Zhejiang Province.

Donald J. Trump, through decades in public life, has been consistent on one core policy idea: that the United States has gotten a raw deal from its major trading partners in the agreements that bind their economies. Renegotiating those terms will surely be a top priority for his administration.

But what will that mean in practice? While the broad thrust of Mr. Trump's thinking on trade is clear, and he has mentioned a few specific policies he would embrace, he and his appointees will have wide latitude in how they pursue more favorable trade arrangements for the United States. A YouTube video released on Monday reiterated a campaign promise to withdraw from the Trans-Pacific Partnership and more vaguely vowed to "negotiate fair, bilateral trade deals that bring jobs and industry back onto American shores."

Since Election Day, trade experts have been gaming potential scenarios of what Trump administration trade policy might look like in detail. Some of those possibilities would risk only modest disruptions to the world economy and could very well result in better long-term arrangements for American companies.

Others would blow up the underpinnings of the modern global economy, endanger trillions of dollars' worth of cross-border commerce, and stand a good chance of prompting a worldwide recession.

Here's what those possibilities look like, from the most benign to the most disruptive.

Scenario 1: The assertive stance, within existing institutions

There really are some elements of the United States' existing relationships with major trading partners that are dysfunctional and disadvantageous to the United States. By taking more aggressive stands on some of them, a Trump administration may be able to get better deals.

Mr. Trump has said repeatedly that he wants to renegotiate the North American Free Trade Agreement. A lot of things can fit under the rubric of "renegotiate," though, and there is room to update the deal in ways that would prove beneficial to the United States. The agreement is 23 years old, after all. And there is plenty of room to adjust terms in ways that preserve the deeply intertwined North American economy.

"There are too many parts of it that are not working," said David Malpass, an economist on the Trump transition team, at an event in October. "There is supposed to be regular annual review between the parties of Nafta to see where it's not working well and to have kind of a constant process of renewal. That's been dropped away. And so that's something that needs to be looked at."

The Trump administration could also pick a variety of industries where it believes trade partners have treated the United States unfairly and bring cases before the World Trade Organization. Paired with targeted duties to punish what it sees as unfair behavior, the approach could win more favorable deals. The Bush administration did just that with steel tariffs in 2002, as did the Obama administration with a 35 percent tax on Chinese tires in 2009.

Trade experts are generally skeptical that these efforts prove worthwhile. Gary Clyde Hufbauer and Sean Lowry of the Peterson Institute for International Economics calculated that American consumers paid an extra $1.1 billion for tires in 2011 to safeguard a mere 1,200 American tire-making jobs. That's $900,000 per job saved.

But Mr. Trump's administration could bring a series of such cases, and if, as he promises, his team members prove to be made up of tougher, smarter negotiators than their predecessors, perhaps they could get better results. Even if they don't, the $18 trillion United States economy will most likely be O.K.

Mr. Trump has said he will instruct his Treasury secretary to declare China a currency manipulator. The George W. Bush and Obama administrations didn't do this, although they also thought that China artificially depressed the value of its currency to the benefit of

Chinese exporters. However, they calculated that subtle diplomacy would be more likely than head-on confrontation to get results.

But who knows? Maybe that calculation was wrong, and a more confrontational approach would have led China to allow its currency to respond to market forces. The Chinese government has allowed its currency to rise relative to the dollar over the last few years, putting it roughly in line with economic fundamentals and reducing the urgency of the issue. (But it could still be in the United States' interest to put in place agreements to make sure this remains the case.)

Naming China a currency manipulator merely triggers negotiation over what to do about it. Such negotiation would most likely be hard-fought, and it might result in a better long-term arrangement for the United States. Or not. But either way, it wouldn't need to disrupt day-to-day trade relations.

That assumes that Mr. Trump takes a more aggressive stance using existing channels and authorities, and wages the battle with the trading partner over specific cases and industries. If so, it will keep lawyers and lobbyists for those industries busy.

"There would be pushback, but you'd be working within the relevant legal frameworks and using existing institutions as they were intended by Congress and the W.T.O. and our trading partners," said Scott Lincicome, a trade lawyer at White & Case who has been critical of Mr. Trump. "Everybody will talk about it, but it won't change the global macroeconomic outlook."

Scenario 2: The bold use of authority, and serious blowback

Ambiguous language in the statutes grants the president broad authority over trade policy. Mr. Trump could be the kind of president willing to use that authority to its fullest.

Rather than focus on targeted duties on individual products as part of a W.T.O. case, the government could invoke emergency authority to place broad-based tariffs on goods from a given country. Think of the 45 percent tariff on Chinese imports that Mr. Trump at one point threatened during his campaign, or perhaps an escalating tariff set to rise until the trade deficit with a given country declines.

Moves along those lines would get everyone's attention, but they would also create enormous ripple effects. There would surely be legal challenges by the targeted country's industries, as well as swift and potentially painful retaliation from trade partners. China (or Mexico, or Japan) wouldn't take these kinds of measures lying down.

"With these blunt instruments, there would be a lot of effects," said Derek Scissors, a resident scholar at the American Enterprise Institute. "It would hit poor Americans the hardest in the sense that it's a regressive tax that makes things like clothing and consumer electronics more expensive."

And the retaliation would most likely be fierce. If China is the target, it might cancel orders for Boeing airliners and buy from Europe's Airbus instead. (The United States exported $15 billion worth of aircraft to China last year). Or perhaps the Chinese would retaliate against American agriculture, endangering the $10.5 billion in United States soybean exports to China and endangering farms across the Midwest — prime Trump country, as the decision-makers in China will surely be aware.

And with the economic underpinnings of major industries under stress, the financial markets would probably enter a period of remarkable volatility. Expect plummeting stock prices for major United States companies that do business around the world.

The Trump administration would be risking significant damage to the United States economy if it took this route, without any guarantee of coming out with a more favorable long-term deal on the other side.

Scenario 3: Upending the world economic order

Trade wars that would be started by broad-based tariffs on major trading partners would be economically disruptive but would still leave the basic infrastructure of the global trade system in place.

The most extreme versions of a Trump trade policy, however, could wreak havoc on the entire system of global economic connections that the United States helped build since the end of World War II.

If the Trump administration can't get the concessions it seeks in renegotiating Nafta, would he follow through on his threat to use the power, written into the trade agreement, to withdraw entirely with six months' notice?

Or if the administration brings cases to the W.T.O. and loses, will the United States abide by the rulings, or will it follow Mr. Trump's campaign threat to abandon an organization meant to bring order to the global trade system?

If he seeks to do those things using executive authority, will Congress stand by or seek to stop him?

"For the last 100 years or so, Congress and the executive branch have had a kind of gentleman's agreement where Congress delegates its authority over international trade to the president as long as Congress gets the ultimate say," Mr. Lincicome said. In a more extreme case of a Trump trade agenda, he said, "the risk is you have not just an economic crisis but a constitutional crisis."

This is pretty far down the road of speculation. The various business interests who have the president-elect's ear would surely try to persuade him not to risk everything by being so drastic. Financial markets since the election have appeared to reflect an expectation that the benign scenario for Trump trade policy will emerge. The S.&P. 500 index, the Dow Jones

industrial average, the Nasdaq Composite index and the Russell 2000 index all hit new highs Monday.

The question of whether one of the more extreme, every-country-for-itself-trade-war scenarios emerges instead boils down to this: Does Mr. Trump mean some of the things he has said on the campaign trail about reopening the very basics of United States economic relationships, or was it all just words?

The economic consequences of the answer are huge.