
Trump's tariffs are part of the Show

Mushtaq Khan, March 15, 2018

The tariffs were unprovoked, and met with universal condemnation. While President Trump continues to offend most of his countrymen, the world has been largely spared, until now. When one lists the aggrieved parties to Trump's unilateral decision to impose tariffs on steel and aluminum imports, the sense of disbelief is understandable. The aggrieved are:

- The Republican leadership, which carries both the House and the Senate;
- Friends and neighbors (Canada, Mexico, the EU, South Korea, Japan, Taiwan, Brazil & the UK);
- Trump's own administration (Gary Cohn – Trump's economic adviser – resigned in protest);
- Most economists, with even the Wall Street Journal flagging this as perhaps his most serious policy blunder to date (March 1, WSJ); and
- There are strong indications that Trump's trade Czar (Peter Navarro) has been preparing the case for policy actions against China.

There is a broad consensus that imposing tariffs will actually hurt the US economy. More specifically: (1) it would stoke inflation, and force the US Federal Reserve to increase interest rates sooner and by more than expected; (2) it could trigger US job losses (in net terms) in the auto sector, greenfield investments, soft drinks and infrastructure; (3) if disgruntled trade partners opt for *tit-for-tat* measures against US exports (e.g. branded clothing, alcoholic beverages, civilian aircrafts, agricultural produce, services, etc.), this means further US job losses; and (4) it would undermine the rule-based global trade regime, and replace it with a more discretionary, uncertain and unstable policy environment that could seriously damage global trade prospects.

A trade war would almost surely create a global recession. Trade volumes would fall, logistic companies would be specifically hurt, banking and insurance would be hard hit, and global tourism could dry up. In our view, Pakistan's economy would not be as negatively impacted for a couple of reasons: one, Pakistan's share of global trade has been falling, which means it is not a trade-oriented economy; and two, most of our exports are low value-added textiles, which are income inelastic. The latter means that even if global income growth were to slow, the negative impact on the demand for Pakistani exports would be limited.

If tariffs are detrimental for the US and the global economy, then why take this step?

Why do it?

President Trump is challenged by a negative news cycle¹, and the lack of any tangible economic benefits for his support base. It may be tempting to say that since Donald Trump is instinctive, his decision to impose tariffs was simply a bad call, which he now cannot reverse as it would hurt his fragile ego.

In our view, the tariffs were not a bad call but a calculated strategy to energize his base; to strengthen America's position in bilateral trade negotiations; to use against establishment Republicans who could ditch President Trump; or all these issues could be sub-plots in a public spectacle.

¹ The Mueller investigation, protests against the gun lobby, Stormy Daniels and the turnover at the White House.

Trump's base

The tariff decision will be used to appeal to his base as another campaign promise that he has delivered on. It is helpful to remind ourselves of what Donald Trump is all about, and how he managed to win the White House.

- Trump did not engage his Republican rivals on policy substance, but on simple and catchy sound-bites that stayed with voters. He played his rivals in a medium that he has mastered, and came out on top;
- Trump has never apologized for his misogyny, perhaps knowing it would be shrugged off by many voters who see this as a fact in American society. Some of his die-hard supporters found his *locker-room* talk refreshingly candid;
- Trump has not separated himself, or discouraged his children from promoting the financial interests of Trump Organization. In effect, Trump likes people to know that he and his family are rich, successful and glamorous; and
- Trump appeals to the concept of the *deep state*, as a force that seeks to enrich insiders at the expense of outsiders like himself, and his political base. By doing so, he is able to feed skeptics about the role of federal enforcement agencies, the Department of Justice, career diplomats, mainstream media and multilateral agencies. Since conspiracy theories are popular with Trump's base, these could become a powerful shield that protects his political career if the Mueller investigation finds incriminating evidence of obstruction of justice, illegal financial dealings, or perjury. Instead of accepting the writ of these institutions, Donald Trump would cite discrimination, or talk about being drowned by the *deep state* in the swamp that is Washington DC.²

If President Trump wants to retain the loyalty of his base, he cannot mess with his magic formula. Also, since his base would enjoy the financial anxiety experienced by the elite, President Trump just has to say that many of his rich friends are annoyed by the tariff decision to lock in their support.

Bilateral negotiations

Looking at the list of the largest exporters of steel and aluminum to the US, the countries that will be worst impacted are Canada, Mexico, South Korea, Brazil, Japan, Taiwan, Russia and Turkey.³ While the US would be willing to take a hard stance against Russia and Turkey, it would not want to harm its allies – or would it? As in the case with Mexico and Canada, the US is likely to initiate bilateral discussions with these countries (with no role for WTO officials), and possibly dangle concessions and its significant economic clout to ensure that these trade partners do not take steps against US exports or financial investments. Concessions could also be made on unrelated matters, which will be used to show the “deal” that President Trump managed to get from *extractive* trade partners.

In effect, tariffs on steel and aluminum are bargaining chips that Trump's trade negotiators will use to get bilateral concessions from friends and foes alike. One thing is clear: if this strategy gains traction in 2018, multilateral agencies like the WTO and international financial institutions, face a very uncertain future.

² While liberal-minded people would relish the legal wrangling as Trump's people are indicted as per due process, this could further embolden Trump's base, which will see such legal proceedings as the *deep state* going after Donald Trump.

³ The White House has announced that Mexico and Canada are temporarily exempted from these tariffs, as the US is currently negotiating Nafta with its neighbors, and the steel and aluminum tariffs would be addressed in these negotiations.

Deconstructing the Republican Party

As a candidate, Donald Trump would brag that since he was independently rich, he did not need political donations, and was therefore free of the moneyed interests in US politics. Even though Steve Bannon has left the Trump team, the latter's anti-establishment rhetoric has often been reflected in the thoughts and actions of candidate Trump. If the steel/aluminum tariffs create a public rift between President Trump and high ranking Republican leaders (which is likely), Trump may gamble that returning to his fiery anti-establishment rhetoric could create public traction, which could help him challenge the discredited Republican leadership. Trump could use the ongoing Mueller investigation as proof that his political allies did not do *enough* to support him – they got what they wanted (tax cuts) and were now willing to cut him loose.

Not great politics – especially for the Republican Party – but it would be top-notch entertainment. A drawn out media debate about the grievances of the *have-nots* against the *haves*, would be great television. Traditionally, the Democrats have championed the cause of the *have-nots*, while the Republicans have protected the privileges of the *haves*. While this would upend the ideological differences between the two political parties in the US, there are no *do's* and *don'ts* when it comes to reality-TV.

Public opinion

It goes without saying that media is the primary avenue to influence public opinion – it is also safe to say that in the past decade, cable TV networks have been challenged by social media.⁴ While the specific avenue of influencing public opinion has changed, what has not is the nature of stories that attract attention. These are not thought-out opinion editorials or intellectual arguments, but sensational stories and “breaking news” that spin a social media web, which spreads with alarming speed and effectiveness.⁵

Another issue is how cable channels in the US have popularized reality-TV shows, and the fact that Donald Trump got his first shot at celebrity status on such a show.⁶ In our view, the popularity of such shows is not based just on the cast of average people, but the fact that the story does not have a well-defined end. The possibility that anything can happen, is perhaps one of the main reasons for public fascination. TV pundits will concede that it is not high-brow content or the legacy created by the show, but its ratings – the more people that watch, the more successful the show.

This creates a scary parallel with what President Trump could be doing. Mainstream media channels (like CNN) can no longer hide their disdain for the Trump Presidency. With tasty snippets of what President Trump has said on a host of issues, CNN anchors (and invited analysts) are visibly aghast and incredulous, displaying resigned amusement over very serious developments. The issue is whether the high turnover of senior staff members, the jockeying for power within the White House, and the question of who will leave next, allow the White House to manage the string of domestic and global issues that

⁴ Analysts have said that Italy's recent elections show that the popularity of fringe political parties like Five Star Movement and the League have dominated because of social media. Even Silvio Berlusconi, who has almost total control of Italian TV networks, could not compete.

⁵ Many observers have rightly claimed that the Alt-Right in the US was energized by social media, and this is the root for the xenophobia and racism that have revealed themselves in the American mainstream.

⁶ Broadly speaking, there are two main ingredients for a reality-TV show: (1) a cast of characters who have competing agendas (i.e. there are winner and losers); and (2) the characters know that they are being watched by an audience that will judge their performance. A successful show is where characters become self-serving, where there is conflict, where intrigue and negative emotions are displayed, there are twists in the story, and there is ample unpredictability and backstabbing. These shows do not show humanity at its best.

need attention. Since this does not appear to be the case, what we have is a high-stake reality-TV show that the global audience is getting addicted to.

This is facilitated by someone like Donald Trump, who is inclined to adopt a *scorched earth* strategy to defend himself, especially if he is playing to a audience. If reality-TV is ratings-based and cannot be shepherded to a specific end, the outlook for the US (and the rest of the world) is pretty much up in the air.

The Tillerson episode

While the outlook for the Trump presidency is uncertain, what he seeks to achieve is not in doubt. Tillerson's departure is not all that surprising when one considers the series of events that preceded it. Tillerson sought to keep the US neutral in the stand-off between Saudi Arabia and Qatar (which earned him the ire of the Saudi monarchy); he was trying to tone down President Trump's anger towards the Iran nuclear deal; and showed strong support for the British PM's view on Russia's use of nerve agents. President Trump very publically contradicted his Secretary of State on these issues, undermining his effectiveness as a diplomat. Tillerson's time was clearly running out.

Tillerson's replacement by Mike Pompeo, who shares President Trump's disappointment with the Iran nuclear deal, means that the White House would like to take a harder stance on North Korea's nuclear program. This posturing will not be lost on the North Korean leader, or regional allies in Asia Pacific. With China signaling that Premier Xi's trade and foreign policies will not be changing after 2022, this could empower Kim Jong-Un to be equally assertive in terms of withdrawing US troops from South Korea, which means the US-North Korea summit is unlikely to resolve the current standoff. If the summit regresses into bickering, this could heighten tensions in the Korean peninsula.

Conclusion

In the age of social media and instant gratification, the panicked pace of global events is not surprising. The manner in which geopolitics is playing out, strongly suggests that 2018 will not be a predictable year. While the US tax cuts have shored up Republican sentiments, it has also pushed the American stock market into yet another bubble, and could provoke a global trade war between the US and China. The latter would surely lead to a global recession.

This outlook is somewhat pessimistic, but one thing should be clearly understood: President Trump is not playing for America's national interests, but is fighting a pitched battle for his political survival with the world as his audience. Trump's only concern is the media fight and how to outmaneuver his detractors – it's not about the consequences for the US, or how this shapes the rest of the world. America's innate inclination towards isolationism has a long history that many are keen to forget, but as the world order is poised to change after more than 70 years, this possible disengagement may not be as fanciful as it initially appears.

The question is: could we all be watching the mother-of-all reality-TV shows? What is problematic, is that while these shows gratify our baser instincts, we also know that they have no consequences. What is playing out in Washington DC may be viewed as entertainment, but it has real consequences. The issue is whether we, as an audience, are able to proactively take steps to manage the fallout from what we are seeing at the White House, or whether we are numbed into thinking it's just TV.