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PIIE Analysis of Trump and Clinton Trade Proposals Finds Substantial Divergent Effects

WASHINGTON, DC—Donald J. Trump's sweeping proposals on international trade, if implemented, could unleash a trade war that would plunge the US economy into recession and cost more than 4 million private sector American jobs, according to an empirical analysis of the two candidates' trade agendas by the Peterson Institute for International Economics. The analysis is contained in a new PIIE Briefing, *Assessing Trade Agendas in the US Presidential Campaign,* released today.

The authors of the empirical assessment, Marcus Noland, Sherman Robinson, and Tyler Moran, find that if Trump implements his proposals to raise tariffs sharply on China, Mexico, and other trading partners, export-dependent US industries that manufacture machinery used to create capital goods in the information technology, aerospace, and engineering sectors would be the most severely affected. But the shock resulting from Trump's proposed trade sanctions would also damage sectors not engaged directly in trade, such as wholesale and retail distribution, restaurants, and temporary employment agencies, particularly in regions where the most heavily affected goods are produced. Millions of American jobs that appear unconnected to international trade—disproportionately lower-skilled and lower-wage jobs—would be at risk, according to the analysis.

"If implemented, these proposals could provoke retaliation by US trading partners, unleashing a trade war that would send the US economy into recession and cost millions of Americans their jobs," the authors state, referring to the Trump proposals. They state further that "in addition to the direct impact on trade policy, the uncertainty surrounding the potential impact of the trade disputes and renegotiations promised by Trump would harm the economy by reducing investment, particularly in trade-related activities…. Evidence from previous episodes of uncertainty regarding trade relations suggests that the impact on investment is significant."

More specifically, in a scenario envisioning reciprocal retaliation by China and Mexico to Trump's trade measures, Washington State would be the worst affected, suffering a 5 percent job loss. But employment would fall by more than 4 percent in a broad swath of states, including California, Connecticut, Indiana, Illinois, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, New Hampshire, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, Texas, Utah, and Wisconsin. Twenty-nine counties across America experience employment declines of 7 percent or more. In absolute terms, Los Angeles County California is the worst affected (176,000 jobs lost), followed by Cook County Illinois (Chicago) with 91,000, and Harris County Texas (Houston) with 89,000.

The loss of jobs would be temporary, the authors say, but it could take the economy five years or more to return to its long-run growth path toward full employment. Not everyone who loses a job in these trade war scenarios will find comparable employment.

Both Trump and Hillary Clinton oppose approval of the Trans-Pacific Partnership (TPP) trade agreement between the United States and 11 countries on the Pacific Rim. The authors note that PIIE analyses of the economic impact of TPP estimate that each year's delay in implementing TPP represents a $77 billion to $123 billion permanent income loss for the United States, depending on the discount rate applied. While opposing TPP, however, Clinton does not call for additional sanctions to be imposed on trading partners.

To measure the economic impact of Trump's trade agenda on the United States, the authors start with simulations from a macroeconomic model developed by Moody's Analytics. The model examines different scenarios of changes in consumption, investment, government demand, and exports resulting from macroeconomic shocks, such as a drastic rise in trade barriers. Extending the Moody's model, Noland, Robinson, and Moran break down the macroeconomic impact caused by trade disruptions into sectoral and state- and county-level effects, using a model organized in a social accounting matrix (SAM), and examine three "what if" scenarios under Trump's trade proposals:

- *Full trade war*: The United States imposes a 45 percent tariff on nonoil imports from China and a 35 percent tariff on nonoil imports from Mexico. (Under this scenario, China and Mexico respond reciprocally, imposing the same tariffs on US exports).
- *Asymmetric trade war*: China and Mexico do not reciprocate with an across-the-board tariff, but instead retaliate in other ways.
- *Aborted trade war*: US tariffs are imposed for only one year, because China and Mexico concede to US demands, the US Congress overturns the action, President Trump loses in the courts, or the public outcry is such that the administration is forced to stand down.

The authors argue that, based on past actions in trade disputes with China and Mexico, a reciprocal response to US-imposed trade sanctions is fully plausible to assume. In the full trade war scenario, the imposition of tariffs on China and Mexico (and their retaliation in kind) reduces US exports and US imports, decreasing economic efficiency. Rising import prices, in turn, spark inflation, increasing the likelihood of the Federal Reserve raising interest rates. The stock market would decline, and uncertainty would increase. The model further assumes a higher cost of credit, debt and equity capital, depressing investment and pushing the economy into recession by 2019. Other more limited retaliation scenarios, including one in which China responds to US actions by selectively ending imports of US aircraft or soybeans or instructing state-owned enterprises to stop purchasing US business services, would be milder but still temporarily damaging.

As for whether a President Trump can carry out his proposals unimpeded, Gary Clyde Hufbauer argues in a separate chapter that the answer is yes. There is ample precedent and scope for a president to unilaterally raise tariffs as Trump has vowed to do as a centerpiece of his trade policy, he writes. Any effort to block Trump's actions through the courts, or amend the authorizing statutes in Congress, would be difficult and time-consuming. Hufbauer argues that there is practically no chance that Congress could preemptively block presidential actions before the next president is inaugurated, and even less chance that congressional action could surmount a presidential veto in the next administration. Because of past precedents regarding presidential powers in national emergencies, which Trump legally could invoke, sanctions imposed by a President Trump would also likely survive challenges in the US courts, he argues.

In another chapter, Marcus Noland analyzes the impact of trade policies advocated by both Trump and Clinton on the United States' foreign policy interests. Pulling out of the TPP, as both candidates promise to do, would weaken US alliances in Asia and embolden its rivals, thus eroding US national security. Asia would interpret failure to pass TPP as an American turn toward isolation, potentially undercutting existing alliances and accelerating the arms race among large, wealthy, technologically advanced states. Abandonment of existing FTAs could harm moderate Arab states, which face severe problems with youth unemployment—and radicalization. Noland also warns that abrogation of the North American Free Trade Agreement (NAFTA), as Trump threatens, would deliver a severe blow to Mexico's economic and political development that could increase, not decrease, the flow of illegal migrants and drugs coming into the United States.

Readers wishing to find out the study's estimates of the economic impact on specific industrial sectors and on employment in a specific state or county may do so by going to this link. In keeping with its practice regarding research transparency, the Peterson Institute has posted the data and computation files for the study's calculations on the Institute's website at this link. This allows full replication and verification of the analysis.

ABOUT THE AUTHORS

Marcus Noland is executive vice president and director of studies at the Peterson Institute for International Economics. **Sherman Robinson** is a senior research fellow at the International Food Policy Research Institute (IFPRI). Tyler Moran is a former research analyst at the Peterson Institute for International Economics. **Gary Clyde Hufbauer** is the Reginald Jones Senior Fellow at the Peterson Institute for International Economics.

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