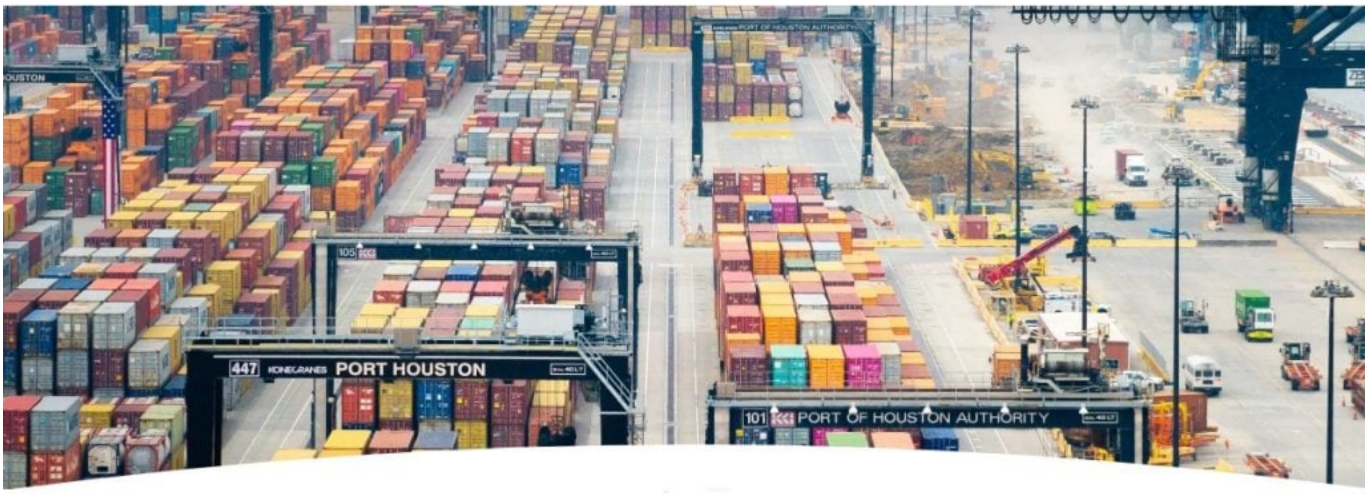
Trump, Tariffs, Trade—and a Taboo?

By Victor Davis Hanson

After only a hundred days, the Trump counterrevolution has made quite miraculous progress on the border, illegal immigration, cost-cutting, curbing the DEI/woke revolution, and a historic Ukrainian War settlement.

The pushback to this multifront effort from the left has been formidable, if not hysterical. The greatest fury mostly centers around Trump's efforts to force U.S. trading partners to adopt either reciprocal or no tariffs while obeying international trading norms—an effort aimed at vastly reducing the U.S. trade deficit.



If Trump could cut a proverbial deal in the next 100 days that, say, cut the annual $1.2 trillion trade deficit in half, coupled with multitrillion-dollar foreign investments, then stocks and bonds would settle down.

Wall Street would go back to its traditional platitudes that the trade deficit then would be no higher than the 3-percent-of-GDP red line.

Stocks would then soar in anticipation of the other news of a continuation of tax cuts, more budgetary reductions, robust energy development, and further deregulation.

The U.S. has run a half-century of trade deficits. And now the red ink has climbed to nearly $1.2 trillion, the largest in history. Yet for all practical purposes, only a few entities account for most of an astronomical sum. And they all have corollary concerns to the U.S. that make their surpluses part of larger problems.

The administration can accurately talk about “70 nations wanting to deal.” But, in truth, if Trump were to settle with just China, Mexico, Canada, the EU, and the ten-nation Southeast Asian trading bloc (ASEAN), then the so-called trade wars would be over.

Start with our North American partners Mexico ($171.9 trillion surplus) and Canada ($63 trillion surplus) that alone account for over 20 percent of the U.S. trade deficit.

Canada’s surplus is almost entirely attributable to its vast oil and gas sales to the U.S. Almost all its daily oil exports go to the U.S., some four million barrels—as well as half its natural gas shipments.

Canada claims that it sells oil and power at a discount to the northern U.S. It also boasts that its asymmetrical sky-high tariffs on American dairy products and poultry are rarely used if the American exports just stay below certain thresholds. But aren’t thresholds themselves a form of tariff?

Canadian oil deposits are landlocked and far from ports. Canadian crude is heavy, sulfurous, and difficult to refine for many nations’ refineries. In contrast, the huge U.S. market right across the border and the ability of American refineries to handle Canadian crude explain the “discount” better than simple Canadian magnanimity.

Moreover, Canada is one of the stingiest of NATO partners. It is underinvesting in military readiness at only 1.37 percent of its GDP on defense, stonewalling its 2 percent commitment for over a decade.

Should the Trump administration prompt Canada to invest 2 percent in defense—about $41 billion extra—and buy enough U.S. products to cut its surpluses, say, by $10-20 billion of its current $63 billion, a deal could and should be easily reached.

Mexico's surplus is huge and growing at $171 billion. It is largely created by assembling cars, electronic goods, and appliances sent to it from other countries to enter the U.S. market with reduced taxes.

Trump could ask Mexico to cut that $171 billion in half, particularly given that Mexican cartels funnel an estimated $10 billion to $20 billion annually into the U.S. through drug smuggling. Their drug factories are designed for U.S. export and contribute to the deaths of 60,000 to 100,000 Americans through opioid overdoses.

Add in the $63 billion in untaxed remittances that Mexico's expatriates send home. Most senders are illegally residing in the U.S. Additionally, many are subsidized by local, state, and federal American entitlements to free up their cash to be sent home.

In other words, like Canada, there are other issues with Mexico transcending trade alone. To even the playing field, Trump could either focus on the cartels, tax remittances, or urge Mexico to buy more U.S. goods in a tripartite effort to reduce the outflow by half.

China's surplus with the U.S. is the largest at $300 billion. And it is the most difficult to address, given that Chinese global tentacles have compromised dozens of nations. Still, we retain far greater leverage on Beijing than Beijing has on us. But to use such levers—stopping visas to 300,000 students, delisting Chinese out-of-compliance companies from our stock exchanges, curbing all technological transfers that have military applications and key spare parts for their imported goods—we would then enter a veritable Cold War.

Instead, China should use its over $1 trillion trade surplus to raise the standard of living for its own 1.4 billion consumers. But redirecting its export economy would cut back on its geostatic initiatives of massively rearming, the Belt and Road imperialist adventure, and spreading billions of dollars around in the Western world to influence universities and buying up strategic property.

Unless Trump wishes an all-out trade war, he, for now, should aim at reducing the Chinese surplus by $300-500 billion and seek some trade reforms, given Chinese violations of every international commercial canon.

The EU runs up a $235 billion surplus with America—mostly from the surpluses incurred by Germany, Ireland, Switzerland, France, and Italy, which export massive amounts of pharmaceuticals, chemicals, cars, and machinery.

The EU's socialist and highly regulated member economies grant direct subsidies to industry and agriculture and rely on contorted uses of the VAT tax and asymmetrical tariffs to gain an advantage over U.S. goods. As a rule, the EU ministers despise Trump, are closely allied with the kindred American left, and would likely do nothing to help Trump unless pressured.

In somewhat ironic fashion, the EU suffers a $315 trade deficit with China but then turns around to run up a $235 surplus with the U.S. That circular strategy helps to ensure the EU can still rely on an aggregate $171 billion surplus with the world, again largely due to the U.S.

In the EU's case, its $235 billion surplus with the U.S. is an inseparable issue from its assumption that the United States's strategic arsenal and oversized NATO presence have always ensured European continental security.

The U.S. spends the most of the NATO membership on defense and is largely responsible for prodding 24 of the 32 NATO members finally to meet their 2-percent obligations, and timely so given the subsequent Russian invasion of Ukraine.

Unlike the ASEAN countries that are trying to reach Western standards of prosperity by piling up trade surpluses, the EU is struggling to maintain its own wobbling prosperity. Its disastrous energy policies, wide-open borders, massive Islamic immigration, and political paranoia about the rise of populist conservative parties have impoverished Europe materially and culturally.

What can we conclude from this global labyrinth of trade?

Most nations see the U.S. market and its reserve currency as critical to their export industries. They believe America is wedded to libertarian economics and would never impose tariffs similar to their own.

They understand, as do Americans, that a $37 trillion national debt, a $1.2 trillion trade deficit, and a $2 trillion budget deficit are force multipliers of each other and not sustainable. But until those numbers hit critical mass, most nations will remain as eager to keep running up surpluses as Americans have been to borrow and spend.

So, what is the logic behind Trump’s loud art-of-the-deal trade gambits?

He wants our “friends” and “allies” to seek reciprocity defined either as symmetrical or no tariffs, some reductions in their trade surpluses, and greater investment in the U.S.—in preference, of course, to a trade war.

For belligerents like China, Trump seeks to coerce it to follow global rules of commerce that it flaunts with impunity to run a global mercantile system based on technology theft, asymmetrical tariffs, espionage, and its loan-sharking Belt and Road initiatives designed to pry away nations from the Western orbit.

Will the Trump trade and tariff strategy work?

It can if it follows some simple dos and don'ts.

1. Trump knows that other nations privately concede they are taking advantage of the U.S. and are willing to renegotiate—if Trump shows them some deference, cools somewhat the "rip-off" language, and settles for gradualism. He has the moral high ground. To win his current tariff standoffs, he needs not achieve instant trade parity, but perhaps instead only prod nations to cut their particular deficits with the U.S. in half, with a schedule of more parity and further surplus reductions to come.

2. The U.S. economy is not in recession. Job growth, stable prices, increased energy production and low prices, and corporate profits were all encouraging in March and April. News of an impending budget bill that extends tax cuts and deregulates, along with trillions of dollars in new foreign investments and budget discipline, will all fuel stock markets.

And what a funny stock market cohort—the 10 percent who own 93 percent of the nation's stock market capitalization! From May through August of last year, investors boasted that they had hit 40,000 in the Dow Jones.

Now, less than a year later, their portfolios are back at 40,000. And yet still they moan that they lost trillions of dollars in March. These strange people apparently believe that the highest stock market peak is encased in amber as their God-given permanent profit. (They should try farming where commodity prices remain volatile and can wipe out a grower in a season if prices collapse and often do—and sometimes do not return to previous highs for years on end.)

3. The world may fear China, but it hates it even more, given its commercial bullying, trade mercantilism, autocracy, and military buildup. For all their double-dealing, the Europeans and our Asian partners will come to appreciate that someone is finally risking it all to bridle China into following global rules while deterring its expanding military.

4. Trump might wish to pivot to a "tragic" style of discourse. He can remind the world he inherited a $3-billion-a-day interest tab on a growing $37-trillion national debt, fueled by $2-trillion budget deficits, which are all force multipliers of the effects of an annual $1-trillion trade deficit.

In other words, he did not want to lay off employees at home, slash programs, or badger and provoke our friends abroad. But at least in the past quarter-century, no president has made any progress on any deficit and debt front. So, Trump can admit he had no choice given the magnitude and variety of the red ink and America's impending rendezvous with financial Armageddon.

5. There may be one important taboo. Trump might curb talk of "revenue," as if we can return to the pre-income tax age, prior to 1913, when federal revenue came largely from tariffs.

Today's tariffs prior to 2025 account for only $77 billion of the total annual revenue of $5.27 trillion. Even the most optimistic estimates suggest $1-3 trillion in new Trump tariff income over the next decade, with the new proposed trade policies. That might mean some $100-300 billion more per year—a fraction of our current aggregate annual income.

But far more importantly, the American people will stick with Trump if they believe we are victimized by predatory nations whose asymmetrical tariffs deliberately run up surpluses with the U.S.

They want to see the Trump trade war as an effort to obtain either similar or no tariffs with trade partners and reduce trade deficits. But if the U.S. preempts and raises higher tariffs on those with whom we now run surpluses (like the U.K. and Australia) or brags that we can become rich from tariffs (at other nations' expense), then the administration will lose the moral high ground, and the people will not support his cause.

In sum, Trump will win this tariff spat if he sticks to "parity" and "fairness" and downplays talking about gargantuan "profits."

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