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Trade War with Canada: The Apex of Stupidity

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Lamenting the unequal and contentious relationship between his country and the United States, the 19th century Mexican president Porfirio Díaz remarked: “Poor Mexico, so far from God and so close to the United States.” Take out “Mexico” and insert “Canada,” and no doubt that you will be reading the mind of Prime Minister Justin Trudeau today.

It is sad, infuriating and ironic that our closest friend and ally is the target of The Troublesome Trio of Trade Protectionism—Trump, Ross, and Navarro—in their quest to erase the U.S. trade deficit. The administration’s justification for their actions, citing Section 232 of the Trade Expansion Act of 1962, is “national security,” with allowable tariff increases aimed primarily at steel and aluminum imports from Canada. (Of course Canada is as much a threat to our national security as Monaco, Zimbabwe, or Albania.)

If there is one nation that is the least deserving of the Trump administration’s protectionist wrath it is Canada.

The size, scope and depth of the U.S.-Canada commercial relationship alone makes a trade war with our northern neighbor the apex of stupidity. To begin with U.S. merchandise and services trade with Canada, our second largest trade partner after China, exceeded \$675 billion in 2017 yielding a *surplus*—not a deficit—of over \$8.5 billion. The U.S. exports more to Canada than to China, Japan, and the U.K. combined. Trade in services alone yielded a surplus of \$26 billion, with the entire trade relationship producing over 2 million jobs for Americans (9 million if direct and indirect trade and investment jobs are counted). Moreover, jobs tied to trade with Canada are in sectors such as motor vehicles, machinery, electrical equipment, and plastics—all well-paying employment. And let’s not forget that Canada is the second largest investor in the U.S. after the U.K., with equity investments of over \$453 billion.

The president whines about bad trade deals and unfair competition from other nations but seems oblivious to the fact that the U.S. is not a paragon of virtue in that regard. The U.S. maintains high tariffs on politically sensitive products such as peanuts, light trucks, wool sweaters, tuna

and dairy products and subjects imports to tariffs that are higher than those of a number of other nations such as Japan, Canada and Australia. At the same time the federal government provides scores of subsidies to the private sector on goods and services, especially on farm products such as sugar; employs non-tariff barriers; limits foreign bidding on government contracts; and restricts investment from abroad in certain sectors such as transportation, communications, defense, natural resources and energy.

Our relationship with our northern neighbor transcends commerce. To decouple trade from our other relationships with Canada is naïve and foolhardy. Canada has been the most loyal of all U.S. allies. Defense and security relations between the two countries are longstanding, well-entrenched and highly successful. Canada's role in NATO, NORAD, the Global Coalition for Counter ISIL, and shedding blood and treasure in the war in Afghanistan, not to mention collaboration in the war on terrorism and transnational crime through sharing intelligence, along with border and law enforcement cooperation, make our neighbor to the north an indispensable partner. Could anyone blame Canada if it decides to pull back from such cooperative arrangements?

Almost 400,000 people and \$2 billion worth of goods and services cross our border with Canada every day. As Steve Blank and I wrote in *Making NAFTA Work* twenty years ago, the North American business environment is one of continuous, dynamic integration of production, services, supply chains, talent and consumer markets. Canada, Mexico, and the U.S. all produce components, sub-assembly, and final assembly crossing borders multiple times to serve customers in all three markets. Over 67% of the components of a Ford Taurus assembled in Mexico are produced by American workers with the final product shipped to the U.S. and booked as a Mexican export to the U.S.

To attempt to cure a trade deficit by imposing tariffs did not work in 1933 with the Smith-Hawley Act (in fact, it prolonged the Depression) and will not work now. There are many reasons for trade deficits, not just unfair practices. Most common are an imbalance in a nation's savings and investment rates, a bigger government budget deficit (due to more federal spending or a huge tax cut), and a growing economy that allows people to spend more on imported goods along with greater access to credit and lower credit rates which fuel consumption.

Prime Minister Trudeau has stated that in its trade war with the U.S. Canada will make its arguments based on "logic" and "common sense." Those are two imports the Trump administration could desperately use.

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