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**Unhinged! The Donald's Trade War Folly, Part 1**

**By David Stockman. Posted On Monday, September 24th, 2018**

Well, even JPMorgan got that right. Over the weekend a carbon unit identified as the banks' "cross-asset strategist" (say what?) warned that investors should brace for a boo-b00 by the Donald with respect to the China trade   war:

*The other concern is that US economic and equity market resilience despite tariffs will****embolden****the President on all geopolitical fronts—autos, NAFTA and particularly Iran—and thus risk a major****miscalculation****from sanctions that are tough to calibrate.*

Ya think?

What apparently triggered this particular "good to know" utterance was not merely today's effective date for major tariff escalations from both sides, but also the recent announcement that China will be "sanctioned" by Washington for buying some fighter aircraft and missiles from it's neighbor in Russia----a provocation that stirred an immediate militant rebuke from Beijing.

That's right. Washington is the world champion arms exporter, notching a record ***$76 billion***of weapons sales last year to one and all who even broadly toe the Empire's line. Yet it now actually presumes to tell the second largest economy in the world from whom it may procure weapons for its military?

Then again, given that the US has China surrounded with upwards of 100,000 troops stationed in East Asia and the massive firepower of the 7th fleet (80 ships, 140 aircraft, thousands of cruise missiles, 40,000 sailors and marines), this latest shot across the bow surely put Beijing to thinking that the Donald's Trade War might not even be the half of it.

For that matter, America's neighbor to the north might be wondering what's up, as well. It appears they have the Donald's dander up owing to the apparent threat to the American economy posed by Canada's 966,000 moo cows, and Canada's unwillingness to accept a 25% tariff on its auto exports to the US if the Donald in his wisdom imposes global auto tariffs on national security grounds!

*There is no political necessity to keep Canada in the new NAFTA deal. If we don’t make a****fair deal****for the U.S. after decades of abuse, Canada will be out. Congress should not interfere w/ these negotiations or I will simply terminate NAFTA entirely & we will be far better off...*

Let's see. America has 9.4 million cartelized cows over-producing***$38 billion***per year of milk versus the Canadian cow cartel's ***$6 billion***per year of overproduction. If the free market were to have its way on both sides of the border, it would shoot a few million excess bovines, drive the price of milk to 361 million consumers drastically lower and be done with it.

***The point is, the Donald has an unblinking eye for the marginalia when it comes to trade.*** Last year two-way trade between the two countries amounted to ***$589 billion***, but the Donald is zeroed-in on a demand to dump say***$1 billion***of our dairy guild's surplus on their milk cartel.

That's pretty rich, of course, when you consider that up against Canada's ***270%*** protective tariff on dairy is the US protective tariff of **350%** on tobacco. That may or may not have anything to do with US tobacco exports of***$850 million***per year to Canada versus imports from Canada of just ***$160 million***---since the difference is probably due to superior growing conditions in the US southeast for an industry that is, so to speak, dying anyway.

But in the great scheme of things, you may wonder what's so "unfair" about America's trade with Canada when you set aside the obvious case of crude oil and products. To wit, absent petroleum, the US exported ***$263 billion***to Canada last year and imported only***$229 billion***---meaning that under normal arithmetic it had a ***$34 billion non-oil surplus*** with Canada!

To be sure, we don't put much stock in bi-lateral trade balances, but in this case you have a pretty good illustration of how unhinged the Donald is on trade. When it comes to oil economics, the commodity essentially flows south---from Canada's western oil and tar sands fields into the US mid-west, and from the Texas shale patch into the export ports on the Gulf.

So Canada exported ***$78 billion***of oil and other mineral fuels to the US in 2017 and the US exported ***$138 billion***to the rest of the world. But aside from this geographically based Adam Smithian division of productive activities, there is nothing else remotely "unfair" about the facts of US/Canada trade.

In fact, on manufactured products the average Canadian tariff is***2.65%***versus**2.96%** for the US. So apart from moo cows and an arcane legal dispute over whether court appeals on anti-dumping cases affecting the two NAFTA countries should be heard in US courts or via the existing NAFTA adjudication process, exactly why is the Donald and his merry band of trade trashers threatening to kick Canada out of NAFTA?

In a word, autos, and for a reason that is truly beyond Unhinged. That is, there is probably no better testimonial to the virtues of market driven free trade than is embodied in the auto supply chain and final assembly networks which overlay both sides of the Ontario border.

The pricing system is driven by the auto OEMs---all of whom operate on both sides of the border---and wages are driven by the UAW in both cases. Beyond that, other costs---such as logistics, utilities, taxes, vendor services----are essentially common.

Not surprisingly, the massive flow of automotive materials, parts, sub-assemblies and final assembles is almost perfectly balanced between the two countries. During 2017, for example, the US exported ***$51.4 billion*** of finished vehicles and parts to Canada and imported ***$56.4 billion*** *from Canada.*

So what's not to like?

As it happens, the Canadians are dug-in, insisting that they do not plan to **invade** America any time soon; and, therefore, if the Trump Administration brings a national security case against the global auto industry and imposes the threatened 25% tariff on cars, they would please like to be exempted.

### [Interactive chart here. [Tariff rate, applied, simple mean, manufactured products (%)](https://data.worldbank.org/indicator/TM.TAX.MANF.SM.AR.ZS?locations=CA-US) The chart shows that tariffs in both directions have recently been about 3%.]

That's right. The Donald's holding out for his milk moustache and the right to slam the automotive free market around and about the Great Lakes with a 25% tariff if he decides that Toyota, BMW and Hyundai threaten the national security of the American people.

[](http://www.google.com/url?sa=i&rct=j&q=&esrc=s&source=images&cd=&cad=rja&uact=8&ved=2ahUKEwjn3ceXnsTbAhVI0FkKHXH8DcAQjRx6BAgBEAU&url=http://blogdailyherald.com/2012/11/27/no-shave-or-no-sex-november/&psig=AOvVaw3bp_zKzlizJvo2jUl2P_-l&ust=1528553031222734)

As an introductory matter, we dwell on the Trump Canadian caper because it is illustrative of the unhinged foundation of the Donald's entire Trade War. That is to say, if he can find something to fight with Canada about---and most likely attempt to kick them out of NAFTA----then be forewarned about the calamity that is brewing with respect to the far more complicated case of the Red Ponzi.

This morning one expert on the matter referred to it as the new 30-years war, and our only quarrel with that characterization is our belief that the Red Ponzi will collapse into economic chaos, hard dictatorship and civil war long before its 2049 centenary of Mao's conquest.

But in the here and now, note that even Goldman Sachs now rates it a ***60%***probability that the Donald will go the full monte and put tariffs on all***$517 billion***of Chinese imports to the US. To put it plainly, that's just plain Unhinged.

In Part 2, we will demonstrate how it will do almost nothing for jobs in the US, but merely displace imports to other cheap labor venues around the planet, and most especially Mexico.

At the same time, it positively will send the Red Ponzi into a tailspin that will have a thundering impact on the entire global economy.

Oh, and we also forgot to mention that the Donald's Secretary of Commerce Wilbur Ross is surely past his sell-by date when it comes to the domestic impact of the China Trade War:

*Because it's spread over thousands and thousands of products,****nobody's going to actually notice it****at the end of the day,' Commerce Secretary Wilbur Ross told CNBC…*

Not even close.