William's Comments

Tariffs, Trade and Tumult Canada's challenges ahead

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Abstract

This document provides comments on Prof. Michael B. Devereux's presentation, "Tariffs, Trade, and Tumult: Canada's Challenges Ahead," delivered at the Pender Whistler Investment Conference on July 9, 2025.

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1 Introduction

Overall, the presentation is strong. The comments below focus on minor corrections to improve clarity and consistency, such as rephrasing for clarity, adding explanatory sentences, increasing font size, labeling axes, and ensuring consistent formatting.

2 Comments

2.1 Slide 3

This presentation will focus on trade issues

Roadmap

- 1. The postwar trading system
- 2. The US tariff shock
- 3. The logic of tariffs
- 4. The impact on Canada
- 5. The way forward?

Figure 1: Slide 3

Roadmap:

- 1. The postwar trading system
- 2. The US tariff shock
- 3.

Maybe say

The logic of tariffs maybe say "Evaluating Tariffs"

- 4. The impact on Canada
- 5. The way forward?

2.2 Slide 4

Evolution of the global trading system

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Evolution of the global trading system

- ► GATT set up in 1947 under US leadership
- ► Tariff rates over 20% in 1950's
- ➤ Series of 'Rounds' Kennedy Round, Tokyo Round, Uruguay Round..led to systematic and substantial trade liberalization
- ► Low tariffs 2-4 % in 21st C.
- ► Replaced by WTO in 1995
- ► Growth of bilateral trade agreements within WTO e.g. Nafta 1993, EU single market 1991



Figure 2: Slide 4

Gave better background on GATT

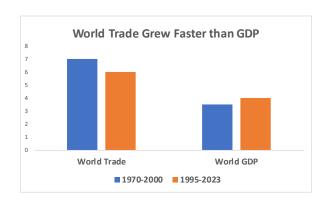
GATT (General Agreement on Tariffs and Trade) set up in 1947 under US leadership

- Tari rates over 20% in 1950s...
-

2.3 Slide 5

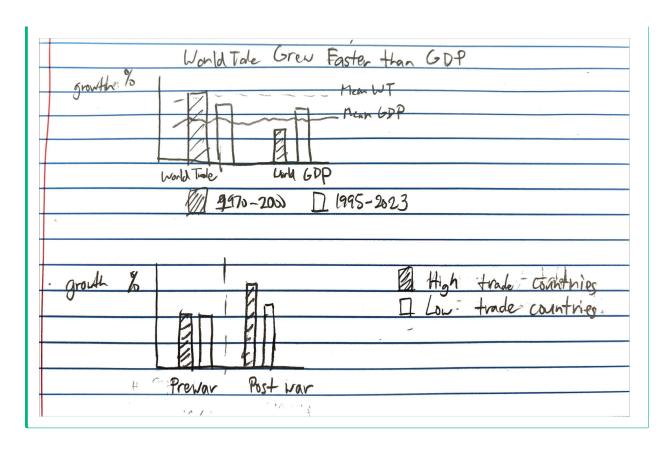
- Suggestion
 - 1. Label the axis
 - 2. Maybe confusing because there are two points being made.
 - 1. World trade growth vs GDP growth
 - show mean of World Trade and mean of GDP comparison
 - 2. Trade and Post War success
 - show pre war growth against post war growth

Trade (globalization) has been central to postwar economic success



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Figure 3: Slide 5



Two key principles of GATT-WTO

- ► Most Favoured Nation (MFN)
 - ► All members are given equal treatment
 - ► Non-discrimination
 - ► This prevents trade diversion among other negative consequences
- ► Binding Tariff Rates
 - Members commit to tariff rates below the 'bound rates'
 - ► Allows for certainty and predictability
 - ▶ Path of tariffs known far into the future



Figure 4: Slide 6

2.4 Slide 6



add a small bullet point explanation of trade diversion :

Trade Diversion when trade is diverted from a more efficient exporter towards a less efficient one.

2.5 Slide 7



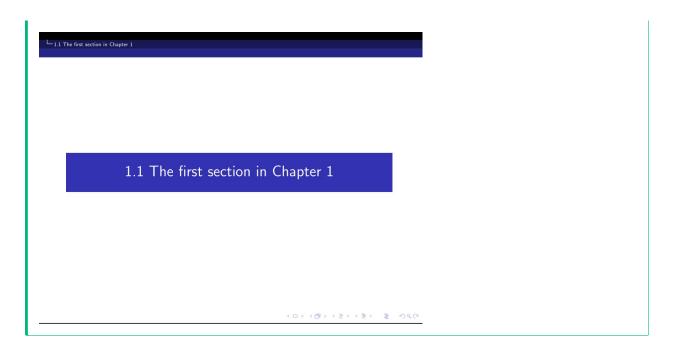
Indicate new "chapter" with a chapter slide. i.e.

New US Announcements

- ► Breaks both principles
 - ► High degree of discrimination
 - ► Abandoning all WTO and bilateral trade agreements
- ▶ Huge increase in uncertainty about future trade policy
 - ► Makes planning impossible
 - ► Uncertainty may be more costly than the actual level of tariffs

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Figure 5: Slide 7



2.6 Slide 8



US average tariff rate now higher than any time since 1930's (..and counting)

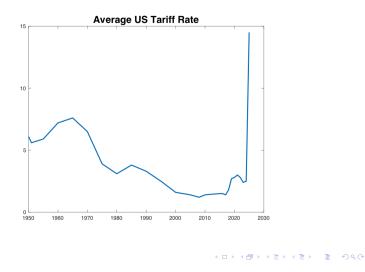


Figure 6: Slide 8

Big spike in measures of uncertainty in trade policy

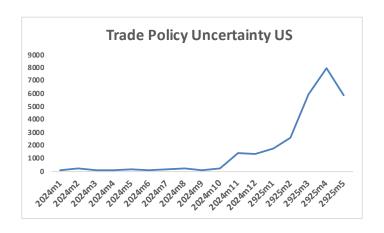


Figure 7: Slide 9

2.7 Slide 9



- define uncertainty
- commit to a consistent label of axis
- time axis formatting is inconsistent across graphs
- typo "2925 2025"

2.8 Slide 11

Fiscal revenue

- ► Can tariff revenue help close the US deficit?
- ▶ US CBO suggests tariff revenue 2 trillion over 9 years 26-34
- ► Guess that annual revenue is 200b. But against a deficit of 2000b plus
 - ► So tariffs cannot close the deficit (or pay for tax cuts)
- ► Tariff revenue so far this year:

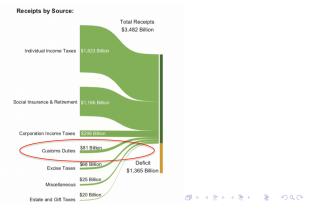


Figure 8: Slide 11

? Tip

- US CBO (Congressional Budget Office) suggests tariff revenue 2 trillion over 9 years 26-34
- Sankey diagram font may be too small, move it to another slide maybe
- better labeling of Sankey if possible. For example Total Receipts and Deficit should be in far right

Can tariff reduce the trade balance?

- ► Trade balance reflects deficiency of saving relative to investment
- Directly, tariffs unlikely to impact either of these
- ► Large capital inflows to US finance the trade deficit
- ➤ Tariffs do little to affect this tariffs should make imports fall, but exports fall also



Figure 9: Slide 12

2.9 Slide 12



• It may be helpful to talk about (X-M)=(S-I)+(T-G)

2.10 Slide 16



- put year in label
- time series graph may also be helpful

2.11 Slide 17



• maybe tie in with slide 12 (X-M)=(S-I)+(T-G)

Will new manufacturing create new jobs?

- New manufacturing industry likely to be much less labour intensive
- ► Currently 28 % of US manufacturing uses robots over 50 percent are implementing
- ▶ Globally, robot density has doubled in the last 5 years

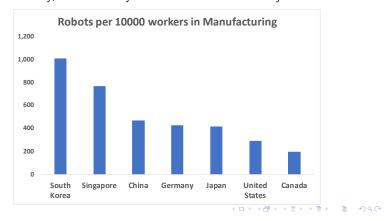


Figure 10: Slide 16

Is there a case for tariffs?

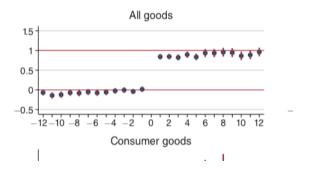
- ► For fiscal revenue, tariffs more distortionary than sales tax or income tax
- ► For trade deficit, savings incentives, fiscal consolidation, or financial policies are a much better instrument
- For revival of manufacturing targeted industrial policy
- One potentially valid argument national security (economic or military) - but should be focused on narrow set of critical sectors



Figure 11: Slide 17

Evidence from 2018 Trump tariffs

Evidence is that for all goods, US consumers paid the tariffs

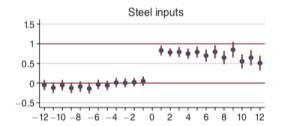


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Figure 12: Slide 20

Evidence from 2018 Trump tariffs

However, for steel industry, sales prices did fall



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Figure 13: Slide 21

2.12 Slide 20/21



- label the axis
- unclear units

2.13 Slide 23

Canadian Context

- ► Canada benefited greatly from globalization
- ▶ Until 2000, trade ratio grew strongly

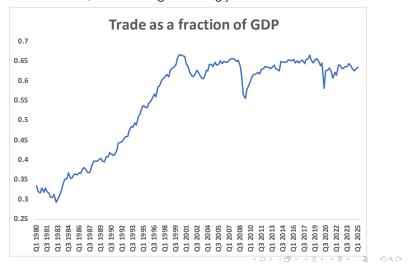
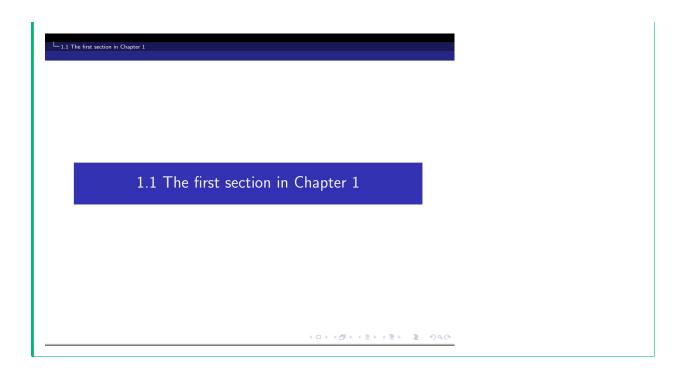


Figure 14: Slide 23



- Commit to consistent x axis format
- different format from slide 9
- introduce new chapter slide



2.14 Slide 24/25

But extreme reliance on US market

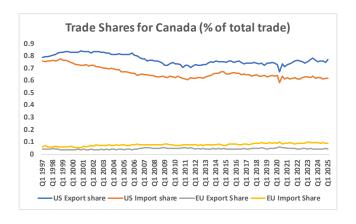


Figure 15: Slide 24

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Tip Pi chart comparison may be better

US is less reliant on Canada in export market



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Figure 16: Slide 25

2.15 Slide 29



- add chapter slide
- add end slide

Way forward

- ▶ Need to work with US no realistic scenario of decoupling
- ► Eliminate internal trade barriers
- ► Deregulation need faster construction and large infrastructure projects
- ▶ Need more competition in many sectors
- ▶ Need openness to foreign investment
- ▶ Need faster adoption of new technologies

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Figure 17: Slide 29