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Donald Trump and the Transformation of U.S. Trade Policy

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First as a candidate and now as president, Donald Trump has been a relentless critic of free trade and an advocate of a unilateral and often-protectionist approach to trade policy. As a result, he has broken from the longstanding and bipartisan support in Washington for the pursuit of trade liberalization and multilateral trade accords. Trump's trade policies, which are integral to his populist approach to governing, have often roiled global markets and helped drive a rise in protectionist policies around the world. The question of whether Trump has fundamentally transformed the U.S. approach to international trade will remain unanswered at least until after the 2020 U.S. elections, but he has clearly had a dramatic impact on U.S. trade policy over his first three years in office and his views are reshaping the traditional partisan alignment on trade in the United States.

Trump, Trade, and Populism

A key theme in Donald Trump's successful run for the White House was his criticism of free trade and his embrace of protectionist trade policies. Trump vowed to terminate or negotiate significant changes in existing free trade agreements, and he questioned the value of the World Trade Organization (WTO) and other multilateral trade bodies. He promised to take strong action against China, Mexico, and other U.S. trading partners, and to move aggressively to reduce bilateral U.S. trade deficits. He premised his radical revision of U.S. trade policy as being essential to protect U.S. industries and boost domestic employment, with an emphasis on traditional manufacturing and heavy industry.

Trump's views on trade are integral to the broad economic populism that was an essential component of his successful campaign, and this continues to shape his policies as president. Trump argued on the campaign trail that traditional institutions, including the WTO and other institutions of the postwar global economic order, are failing to address real concerns, especially in advanced economies like the U.S. His populist appeal to American voters was successful for a number of reasons, including: the uneven economic growth since the 2008 global financial crisis and the resulting increase in income inequality; globalization and the shift of production from the U.S. to China and other emerging markets; technological change and growing automation; job loss in the "Rust Belt" and rural areas; and gridlock in Washington. These and other trends led many Americans to support Donald Trump and to embrace his protectionist trade proposals. This newly emergent U.S. populism led others to support the democratic socialism of Bernie Sanders, who also argues that free trade has not benefitted American workers.

Trump has largely followed through on his campaign promises on trade. In one of his first actions as president, for example, Trump withdrew the U.S. from the Trans-Pacific Partnership (TPP). He quickly moved to launch talks with Canada and Mexico to renegotiate the North American Free Trade Agreement (NAFTA). Trump's trade policies during his first year in office often fell short of his most-protectionist campaign rhetoric – he did not actually withdraw from NAFTA despite repeated threats to do so, for example – but he built the foundation for a sharp turn toward protectionism in 2018 and 2019.

That policy shift came as the White House staff and economic advisers to Trump turned over during the past two years. Whereas the advisers to Trump at the start of his presidency embraced a relatively broad range of views on trade policy, Trump came to rely more heavily during 2018 and 2019 on advisers who agree with his inclination toward protectionist policies. For example, Trump's decision to raise tariffs on imported steel and aluminum in early 2018 led to the departure of one of White House's strongest advocates of free trade, National Economic Council Chair Gary Cohn, and boosted the influence of more protectionist advisers like Peter Navarro. Other supporters of free trade, including U.S. allies and trading partners, business, and Congressional Republicans, have increasingly found they have only limited influence over Trump's trade policies.

Trump's embrace of protectionism abandons decades of bipartisan support in the U.S. for the broad goal of trade liberalization. Trump has focused almost exclusively on bilateral trade deficits, eschewing arguments by economists that such deficits are not a good measure of trade's economic impact. Trump has largely rejected the benefits of multilateral trade accords, preferring bilateral negotiations – in part because he views trade policy through a transactional lens in which one-on-one deal-making is the best way to achieve success. Once again rejecting the arguments of a vast majority of economists, Trump says tariffs are "good" and that they are paid by U.S. trading partners, not by American companies and consumers. This view has freed him to raise tariffs on a wide variety of products, often in a seemingly arbitrary manner.

Trump and China

Trump's views on trade are nowhere more apparent than in his trade policy toward China. Trump's campaign platform was often highly critical of China, and he called as a candidate for changing the economic dynamic with China to give American workers a level playing field and restore the U.S. manufacturing base. At one time, Trump called for levying a 45% tariff on all imports from China, and he pledged to label China a currency manipulator and impose punitive tariffs on Chinese goods. After winning the election, Trump broke with established practice by speaking on the telephone with the president of Taiwan before speaking to the president of China.

Despite such harsh rhetoric, the first year of Trump's presidency was marked by relative quiet in U.S.-China trade relations. Three months after he became president, Trump welcomed Chinese President Xi Jinping for a two-day summit at his Mar-a-Lago resort in Florida, where they discussed bilateral trade and North Korea. Trump's personal relationship with Xi seemed good and benefitted from Trump's focus on trying to reach a deal with North Korean leader Kim Jong Un, whose regime depends on China. Trump made a state visit to China in late 2017, reinforcing the sense that U.S.-China relations were good.

Presidents Trump and Xi had agreed in their meeting at Mar-a-Lago to launch 100 days of bilateral trade talks, but those talks failed to lead to an agreement and bilateral trade relations started to sour. In early 2018, President Trump decided to impose tariffs on imports of solar cells and modules, most notably from China. Chinese steel and aluminum imports were then hit with higher tariffs when President Trump took action on national security grounds against metals imports from most U.S. trading partners in early March. The decision led to retaliation by several U.S. trading partners, including China.

The most important tool for the increasingly tough trade policy toward China has been an investigation launched in mid-2017 under Section 301 of the Trade Act of 1974, which gives the president broad discretion to act against unfair foreign trade practices. The investigation focused on how China's forced technology transfer, intellectual property, and innovation policies are harming U.S. companies. It concluded that such policies cost the U.S. "tens of billions in damages" every year.

That investigation was the basis for a dramatic surge in bilateral trade tensions during the spring of 2018 that started in March when President Trump announced that he intended to raise tariffs on $50 billion-$60 billion in Chinese products, based on the conclusions of the Section 301 investigation. Trump also said his administration would soon propose restrictions on investment by China in sensitive U.S. technology sectors.

The Section 301 report has subsequently served as the basis for many of the actions taken by the Trump administration against China over the past year and a half. These actions have resulted in the levying of higher tariffs on virtually all Chinese imports, while China has retaliated with tariffs on $135 billion in U.S. products. The tariffs have been raised in a series of steps, starting in July 2018, when the U.S. levied a 25% additional tariff on $34 billion in Chinese products and China retaliated by raising tariffs on $34 billion of U.S. products. The tariff hikes culminated in September 2019, when the U.S. levied a 15% additional tariff on $125 billion in Chinese products and threatened to levy tariffs on another $160 billion on December 15, 2019. The December tariff hikes would hit, for the first time, a wide range of U.S. consumer products.

The U.S. and China held over a dozen rounds of trade negotiations aimed at reaching a deal during the time these tariff increases were being imposed, but those efforts failed until the U.S. and China announced agreement on the general outlines of a "phase-one" trade deal during the fall of 2019. Bilateral talks to finalize the deal intensified in November and early December, as both sides sought to avoid the new round of tariff increases scheduled to take effect on December 15.

Finally, on December 13, U.S. Trade Representative Robert Lighthizer announced that the U.S. and China had reached a deal to finalize an agreement under which China committed to increase purchases of U.S. goods and services by at least $200 billion over the next two years, including an increase in purchases of U.S. agricultural products to $40 billion-$50 billion annually. In return, the U.S. committed to cut the 15% tariffs on $125 billion in Chinese goods levied in September to 7.5% and to suspend indefinitely the December 15 tariff hike on $160 billion in Chinese goods. In addition, China made commitments on intellectual property, currency manipulation, and financial services. The two countries also agreed to the creation of a U.S.-China dispute-resolution mechanism.

Reaction in Washington to the trade agreement was generally lukewarm, though business groups and policy makers alike have welcomed the likelihood that the phase-one deal will ease U.S.-China tensions over the near term. Chinese officials initially indicated that the U.S. also committed to phasing out the 25% tariffs that are still being levied on $250 billion in Chinese goods, but Lighthizer said any further tariff reductions will be linked to success in future phases of talks. The U.S. and China signed the phase-one deal on January 15, and it took effect 30 days later.

Critics of the phase-one accord have focused on one issue: the trade agreement hardly seems worth the past two years of economic turmoil, threats, and drama. Trump administration officials insist that the agreement is merely the first phase, and that phase-two talks will address the broad structural concerns that set off the trade war in the first place, but critics have raised questions about whether that is the case. The deal is good short-term news for financial markets, the economy, the farm and financial services sectors, and international business, though it does little to address the fundamental issues at the heart of U.S.-China trade tensions – issues that are now unlikely to be addressed until after the 2020 U.S. elections.

Trump and Automotive Trade

The trade war with China, which is the highest profile aspect of President Trump's trade policy, is in some ways unique: while Trump's tactics of unilateral threats and tariff hikes have been subject to bipartisan criticism, there is strong bipartisan support for a tougher trade and economic policy toward China. This was readily apparent in bipartisan support for legislation passed in 2018 that strengthened U.S. export-control and foreign-investment laws – legislation that was driven by Congressional concerns about technology competition from China. U.S. companies have also supported a tougher policy toward China, though much of the U.S. business community has been highly critical of Trump's unilateral approach and heavy reliance on tariffs in implementing that tougher policy. The differences on trade policy toward China are more over tactics than broader strategic goals.

In sharp contrast, there has been limited support in Congress or the business community for several other high-profile elements of President Trump's trade policy, including his decision to raise tariffs on steel and aluminum imports. Trump took that action in early 2018 under Section 232 of U.S. trade law, which gives the president great flexibility to address imports that are found by the Commerce Department to threaten national security. With a few notable exceptions, those tariffs largely remain in place.

There has also been little support in Congress or the business community for another high-profile part of President Trump's trade policy: his frequent threats to raise tariffs on imports of vehicles and auto parts from Europe, Japan, and elsewhere, once again using Section 232 as the basis for doing so. Business and lawmakers from both parties have warned that raising automotive tariffs as Trump has threatened could cause severe economic harm in the U.S. and abroad, but Trump continues to threaten to do so. [While Trump has warned that he may target automotive imports from Europe and Japan for tariff hikes, Japanese officials say they have been assured that Trump will not levy new tariffs on Japanese automotive products in light of the new U.S-Japan trade accord.]

A statutory deadline passed in November 2019 without Trump deciding whether to raise tariffs on automotive imports under Section 232, which has raised questions about whether he still has authority to act without a new Section 232 investigation of automotive imports by the Commerce Department. Trump does have other options if he decides to follow through on his threat to raise automotive tariffs, though his doing so would likely face fierce opposition and have a potentially negative impact on the economy and financial markets. Most notably, the administration could launch a Section 301 unfair trade practices investigation of automotive imports that could also consider subsidies to justify tariffs or quotas.

U.S. Trade Representative Lighthizer has said that, with the U.S. reaching trade deals recently with Japan and China and the U.S. Congress having passed legislation to implement the U.S.-Mexico-Canada Agreement (USMCA), the Trump administration may now focus its trade policy on the European Union. A Section 301 investigation of the EU could look not only at automotive trade but also at other areas of concern to the U.S. The passing of the November deadline lessens the risk that President Trump will raise tariffs on automotive imports in the near term, but imports from Europe remain at risk as the administration looks to broader concerns.

Recent Successes: The Japan Agreement

The recent trade deal with China is one of several recent developments cited by the Trump administration as evidence that its trade policies are delivering results. Another example is the recent “phase-one” trade deal between the U.S. and Japan. The most notable aspect of that agreement, from the U.S. perspective, is Japan’s agreement to lower or abolish tariffs on many U.S. farm products to match levels offered to members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade accord, the successor to the TPP. The U.S. will reduce tariffs on some Japanese industrial goods. The accord, which did not require action by the U.S. Congress, took effect on January 1. The U.S. and Japan have committed to “phase-two” trade talks on thornier issues, including tariffs on automotive products, but there is little expectation of progress before the November 2020 U.S. elections, though talks will be ongoing.

The phase-one Japan deal has been praised by U.S. farmers but garnered little attention otherwise, since it does not address the structural issues of concern to the broader U.S. business community. But President Trump has said the deal offers evidence that his trade policies can lead to agreements that benefit the U.S. (though many of these benefits in terms of Japanese markets had already been won through the TPP before Trump withdrew from that accord). Supporters of Trump’s trade policy argue that it was the threat of tariffs on automotive imports that brought Japan to the negotiating table in the first place, and thus made even a phase-one trade deal possible.

Recent Successes: The USMCA

Unlike the China and Japan trade deals, which are both seen in Washington as relatively minor accords setting the stage for more comprehensive negotiations, implementation of the U.S.-Mexico-Canada Agreement is widely seen as a major accomplishment for President Trump. The three countries last year signed the USMCA, the successor to the North American Free Trade Agreement, and the U.S. Congress passed and President Trump signed into law legislation to make the necessary changes in U.S. law to implement the accord.

The Trump administration spent much of the past year negotiating with lawmakers in an effort to ensure Congress would pass USMCA implementing legislation. Most notably, U.S. Trade Representative Lighthizer held extensive talks with a small group of House Democrats to garner their support for USMCA. Those talks resulted in an agreement, announced in early December 2019, to make certain changes in USMCA to address concerns raised by Democrats on labor, environmental, pharmaceutical, and enforcement provisions. The changes were subsequently addressed in a protocol to amend USMCA that was signed by Lighthizer and his Mexican and Canadian counterparts on December 10, 2019.

These changes managed to win the support of top House Democrats, who argued that they were able to secure “a true transformation” of the original USMCA that result in an agreement that could set a pattern for including tougher environmental and labor provisions in future trade accords. Business groups criticized some of the changes in the USMCA protocol, and the pharmaceutical industry was particularly critical of an agreement to drop longer data protections for biologic drugs. But most major business groups called on Congress to pass USMCA implementing legislation, although the accord is projected to have a small (and even slightly negative) economic impact.

The USMCA implementing bill passed by Congress technically repeals the North American Free Trade Agreement, though much of NAFTA will essentially remain in place because USMCA is so similar to the earlier accord. The bill only “suspends” the U.S.-Canada Free Trade Agreement, which predates NAFTA, so it could serve a fallback if a USMCA termination (“sunset”) provision is ever implemented.

Implementation of USMCA [which awaits action by the Canadian parliament] will be a major political victory for President Trump, delivering on his promise to replace NAFTA – though the USMCA in fact is very similar to the predecessor agreement, of which candidate Donald Trump was highly critical. While USMCA is projected to have a modest economic impact, its implementation (along with the U.S.-China and U.S.-Japan deals) offers some certainty on trade policy and thus could encourage business investment and ease financial market concerns. Approval of the USMCA can also been seen as evidence that, even with Washington sharply divided along partisan lines, the two parties can work together on an agreement that is seen as beneficial for the U.S.

Trump and the Politics of Trade

President Trump's views have helped drive at least a short-term shift in the politics of trade in Washington and disrupted the old partisan alignment on trade: while Republicans were once the key supporters of free trade, Republican support for trade liberalization fell sharply during Donald Trump's successful presidential campaign in 2015-16. Trump's core supporters still oppose free trade, though business groups and many moderate Republicans still support it. Polls show that Republican support for free trade has rebounded some over the past two years, but the Republican party, which was once a bastion of support for free trade, is now divided on the issue.

The same can be said of Democrats: while Democrats were once known for supporting protectionist policies, polls now find that two-thirds of Democrats say free trade is good for the country. This shift reflects the growing strength of the Democratic party in coastal states that are more heavily dependent on trade and which have benefitted from trade liberalization more than traditional manufacturing or farming states in the Midwest. But many progressive Democrats – including Bernie Sanders and Elizabeth Warren – remain skeptical about trade liberalization. These Democrats see free trade as favoring corporations, not workers, and thus often oppose free trade agreements. Key Democratic groups, including organized labor, are also wary of free trade, and many union voters are strong supporters of Donald Trump and his trade policies.

Trade is unlikely to be a major issue in the 2020 elections, in part because many of the leading Democratic candidates differ with Donald Trump more on the tactics than the goals of trade policy. For example, most leading Democratic presidential candidates support tougher policies toward China. They may differ with Donald Trump on the tactics of taking a harder line toward China, but not on the broad policy goals. In addition, voters rarely list trade as a top priority: "global trade" ranked last among dozens of public policy priorities for 2019, according to a Pew survey. The impact of trade on jobs and the economy is an important issue, but the specifics of trade policy are rarely discussed beyond broad generalizations on the campaign trail.

While trade may not be a top issue on the campaign trail in 2020, the outcome of the 2020 elections will have a major impact on future directions in U.S. trade policy. The impact of a Democratic win is unclear, since the identity of the Democratic candidate is not yet known. While a win by a progressive like Bernie Sanders or Elizabeth Warren would result in policies that remain wary of the benefits of free trade, a win by a moderate Democrat like Joe Biden or Michael Bloomberg could see the U.S. reclaim its position as a leading advocate for trade liberalization and multilateral institutions and agreements. A victory by Donald Trump, in contrast, likely points to four more years of policies like those seen over the past two years. Such an outcome would likely lead to a more permanent transformation of U.S. trade policy and a complete break with the era in which the U.S. was the driver of global trade liberalization. It would also directly threaten the WTO and other international trade architecture that was implemented, largely under U.S. leadership, during the postwar era. Thus while trade may not be a top issue in the 2020 campaign, the outcome of the 2020 election could have a profound impact on the future direction of U.S. trade policy.

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