US Trade Policy Under Trump

by Antonia Colibasanu - November 13, 2024

Today's global trade patterns are very different from when Donald Trump began his first term as U.S. president in 2017. The first Trump administration overturned the free trade dogma that had dictated U.S. policy during many previous administrations and placed much greater emphasis on the political and security aspects of foreign trade. In the ensuing years, the U.S.-China contest for global influence intensified, a global pandemic triggered a worldwide reassessment of supply networks, and the U.S. and Europe launched an effort to isolate Russia economically because of its invasion of Ukraine. In this new economic era, efficiency is out, security is in, and fewer and fewer people consider "protectionism" a dirty word. Against this backdrop, Trump is assembling his second administration, with important implications for the U.S. economy and world trade.

The central goal of Trump's trade policy is unchanged from his first administration: to reduce the United States' reliance on foreign, particularly Chinese, supply chains and shift more manufacturing to the U.S. and friendly countries. Also like his first term, Trump's preferred instrument is tariffs. During the campaign for a second term, Trump threatened to impose tariffs of either 60 percent or 100 percent on all Chinese imports to counter Beijing's trade practices, which were deemed unfair in a 2018 U.S. Trade Representative report. He also supported restrictions on Chinese investment in U.S. energy, technology and agriculture.

Beyond China, Trump aims to reduce the U.S. trade deficit with major partners, especially the European Union. To do so, he has proposed a blanket 10 percent tariff on all imports and reciprocal tariffs on imports from countries that levy duties on U.S. goods. He has also proposed a 100 percent tariff on all cars made outside the United States, reflecting his enthusiasm for boosting U.S. manufacturing employment and production.

Given the continuities in the trade principles from Trump's first term, it may be useful to review how the first Trump administration conceived of its trade policy and how it evolved.

Trade War With China

As a candidate in the 2016 presidential election, Trump accused China of currency manipulation and unfair subsidies and proposed a 45 percent tariff on all Chinese imports. As president, however, he singled out specific sectors while leaving others alone. From 2018, the U.S. targeted various Chinese sectors with wave after wave of tariffs between 10 percent and 25 percent. This continued until January 2020, when Washington and Beijing reached a temporary truce that included a reduction in U.S. duties and a Chinese commitment to buy a specific amount of U.S. goods.

Despite their hopeful agreement, over the next few years the case for decoupling the U.S. economy from China grew only stronger. First, China did not live up to its purchasing commitments under the so-called “phase one deal,” in part due to the COVID-19 pandemic, which broke global supply chains for several years. Then in early 2022, after Russia invaded Ukraine, Beijing began helping Moscow sidestep Western sanctions. It was hardly surprising, therefore, when the Biden administration in 2024 imposed new tariffs on Chinese semiconductors, renewable technologies, steel and more – including raising tariffs on Chinese electric vehicles to 100 percent from 25 percent. Additional increases are scheduled to take effect in 2025 and 2026.

Still, some Chinese officials are optimistic about Trump’s return, believing that a Trump administration will be better able to negotiate a trade settlement, like it did near the end of his first term. Beijing expects the Trump team, once in office, to walk back its threats of blanket tariffs and instead hit only specific products. Chinese officials also took note of the ferocious political backlash in the U.S. to higher-than-normal inflation, which was not a significant factor in the U.S.-China trade war during Trump’s first term. (This despite the fact that U.S. importers paid an estimated $32 billion more annually as a result of the tariffs, according to a 2021 U.S. Chamber of Commerce report.) They probably assume that the threat of another bout of rapid price increases due to tariffs will force Trump to be more restrained in round two. Indeed, the U.S. has cut its dependence on Chinese electronics and semiconductors but still imports more than 90 percent of certain antibiotics and other critical drug components from China, according to the U.S.-China Economic and Security Review Commission.

The Rest of the World

All politicians make promises during campaigns that cannot be kept. In 2016, Trump promised tariffs of 15 percent to 35 percent on goods made by U.S. companies that had relocated abroad – a threat that would have inflicted serious pain across U.S. business sectors. Now, he is promising a blanket tariff of 10 percent on all imports and a 100 percent tariff on cars made outside the United States. Neither pledge is feasible unless the administration is willing to abandon other priorities like tackling inflation and sustaining U.S. production. Tariffs raise production costs, which would likely be passed on to U.S. consumers, especially in sectors without domestic alternatives. Long-term market growth might suffer, and sectors with significant international exposure such as technology, agriculture and manufacturing could see their stock prices fall.

However, Trump has also advocated a “fair trade” approach that would see the U.S. impose tariffs on countries that tax U.S. goods. Though this could push some partners to reduce their duties, while others may retaliate with restrictions on U.S. exports, damaging U.S. agriculture and manufacturing.

During Trump’s first term, Canada and Mexico reacted to similar tariffs by retaliating against politically sensitive U.S. industries, forcing Washington to back down. Both countries introduced tariffs on U.S. steel and aluminum after the U.S. enacted a 25 percent steel tariff and a 10 percent aluminum tariff. Mexico also targeted U.S. pork, apples and cheese exports. In his second term, however, Trump will oversee negotiations on whether to renew the U.S.-Mexico-Canada Agreement (USMCA), giving him the opportunity to introduce new conditions on trade and security issues.

The EU also retaliated after the U.S. placed tariffs on European steel and aluminum in 2018, hitting back with tariffs on U.S. agricultural, pharmaceutical and tech goods. In 2019, the World Trade Organization ruled in Washington’s favor in a longstanding dispute with Brussels over subsidies, as a result of which the U.S. imposed a 10 percent tariff on European aircraft and a 25 percent duty on EU agricultural products. The Biden administration suspended these tariffs as part of a five-year truce with the EU in 2021, but the new Trump team believes tariffs will force Europe to make concessions on trade and security. Any new tariffs will especially hurt Western European countries like Germany and Italy, whose exports are heavily skewed toward the U.S. market.

Universal tariffs are impractical for strategically important sectors like steel and aluminum, which are vital for infrastructure and manufacturing. From the outset, the Trump administration applied steel and aluminum tariffs selectively, granting exemptions on occasion. In 2018, he fully exempted Australia from steel and aluminum tariffs, while giving Argentina, Brazil and South Korea quota-based exemptions. Canada and Mexico won exemptions in 2019, as previously mentioned, though certain derivative products faced tariffs again in 2020. Tariffs were reapplied to Canadian aluminum in August 2020 but lifted a month later. Under Biden, the U.S. shifted from tariffs to tariff rate quotas for the EU, Japan and the United Kingdom.

Setting Expectations

The second Trump administration, like its first iteration, will emphasize economic nationalism, with tariffs and related measures designed to bolster U.S. manufacturing and reduce its reliance on imports. However, despite campaign rhetoric suggesting a hardline approach, actual implementation will likely be more flexible, balancing trade policy with other considerations such as U.S. alliances, global supply chain dynamics and inflation concerns.

According to mainstream economic theory, free trade generally raises economic output and income, while tariffs tend to have the opposite effect. Historically, tariffs have raised costs and limited supply for U.S. businesses and consumers, ultimately reducing incomes, employment and overall economic output. Higher consumer prices also erode the after-tax value of labor and capital, discouraging work and investment. Tariffs can also cause dollar appreciation, which may offset some domestic price increases but make U.S. exports more expensive, cutting into revenues for U.S. exporters.

But protectionism often resurfaces during times of international conflict, when nations prioritize self-sufficiency and shy away from doing business with adversaries. In these situations, protectionist policies can support domestic industries critical to national security and counteract perceived unfair practices or sanctions. Nevertheless, though protectionism can give some industries a short-term boost, it limits long-term growth by reducing competitive pressures, ultimately hampering innovation, efficiency and global competitiveness.

Given these tradeoffs, the Trump administration might moderate its approach to balance impacts on U.S. industries and consumers. As in his first term, when tariffs were sometimes paused or modified, Trump 2.0 could adopt a pragmatic stance, balancing assertive trade measures with economic and market realities. This may mean negotiating exemptions, quotas or tariff adjustments, especially with allies, to minimize disruptions to economic ties and strategic relations. Trump's approach could also reshape international partnerships, as legacy alliances give way to new partnerships better aligned with U.S. strategic goals. While replacing some partners may be challenging in key sectors, in others it could enable the U.S. to forge more compatible alliances that better serve its economic and security interests.

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