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US Trade Policy: A Headache That Will Not Subside

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In the first Trade Policy Agenda of his presidency, Donald Trump "reject[ed] the notion that the United States should, for putative geopolitical advantage [emphasis added], turn a blind eye to unfair trade practices that disadvantage American workers, farmers, ranchers, and businesses in global markets".

In so doing, Trump upended 70 years of trade policy, a policy that opened the US market in the belief that economic growth in other countries (including Japan and in Europe) would reduce the chance that the United States would go to war again. His predecessors fought to liberalize access for US products as well, but Trump and his team believed large US trade deficits demonstrated that foreign governments (especially China's and the EU's) take advantage of American openness. He accordingly withdrew the United States from the Trans-Pacific Partnership (TPP) agreement, levied duties on steel and aluminum for "national security" reasons, let the World Trade Organization (WTO) dispute settlement system lapse, started a trade war with China, and began one with the EU after a WTO finding against European subsidies for Airbus. He also threatened duties on European autos if the bloc did not reduce its $150 billion trade surplus with the United States. All this sank the US-EU Transatlantic Trade and Investment Partnership (TTIP) negotiations, although those were already in trouble.

Plus Ca Change…

Republican strength in the "rust belt" in the 2016 and 2020 presidential elections convinced the incoming Biden administration that Trump's trade policy was politically astute. So it essentially continued his "worker-centric" approach, albeit with a nicer tone, to maintain union support. It kept the tariffs on Chinese products (and indeed increased them, including a 100% duty on Chinese electric vehicles (EVs)), and refused to restart the WTO appeals process. The Biden administration also converted tariffs on steel and aluminum to quotas, suspended tariffs on Airbus products in exchange for the EU's suspension of WTO-approved tariffs on products from US subsidies of Boeing, stopped threatening tariffs on European autos, and established the Trade and Technology Council (TTC). This last move aimed to improve US-EU discussions in ten areas, largely where China presented a security threat or competitive challenge. The two sides made significant strides in the TTC, including on artificial intelligence (AI) regulation, export controls, critical minerals and online content, but seemed unable to resolve irritations such as the EU's carbon border adjustment mechanism (CBAM, which taxes imports of certain energy-intensive products based on their carbon emissions) and the US's Inflation Reduction Act (IRA) subsidies for certain EVs manufactured in the United States or countries with which it has a free trade agreement. This excludes the EU.

It May Get Worse

These two irritants highlight a trend in US and EU trade policy that could divide the allies and undermine the WTO: an increasing focus on how products are made.

While products must meet the safety requirements of an importing country and pay required duty, trade rules frown on discriminating against a product based on how it is made. This protects developing countries from others using differences in labor and environmental regulations to block their exports and weaken their economic growth. Indeed, this is their complaint against CBAM, which also frustrates the United States because the EU approach to reducing emissions through a carbon price ignores Washington's regulatory approach.

Should Biden be reelected, the United States will nevertheless move further in this direction. His new climate negotiator said in April that current trade policies "reward countries that use dirty production and non-market practices to gain a competitive advantage". He advocates a trade policy that ensures "cutting emissions isn't just the right thing to do, it's the only thing to do."

Biden would also continue to promote American manufacturing through government procurements that skirt WTO commitments and by subsidizing investment in high and green tech, setting up conflicts with the EU's Foreign Subsidies Regulation and International Procurement Instrument.

US-EU trade relations will be in for an even rockier time should Trump be reelected. He confirmed in February he would impose a 10% tariff on all imports and a 60% minimum duty on Chinese products, turning a trade war into a war on trade. He may also try to significantly reduce the value of the dollar, which some advisers believe should be pegged to balance the US trade deficit rather than reflect the much larger investment demands for the currency.

Buckle Up

Whatever the election results, the next US administration will pursue a trade policy that puts American manufacturing workers first and "protects" them against "unfair" trade, even if measures violate WTO and other international commitments.

A second Biden presidency would be "easier" for the transatlantic relationship, as Washington would still want the EU as an ally against China's unfair trade practices. Even so, some moves (such as the 100% tariff on EVs) may be intended to force the bloc to take similar steps.

Trump will be unapologetic about adopting tough measures to reduce the EU's $210 billion trade surplus with the United States. Brussels will respond with the trade defense tools it has, though it could also consider closer collaboration to address the root cause of the problems both jurisdictions face: the structural distortions in China's economy. Beijing's export-driven growth creates huge trade surpluses that, combined with capital controls, mean the economy is awash in money. Subsidies are systemic, not just government grants. This affects all countries, including emerging economies. The EU and others could help develop a coalition to pursue a "bold, comprehensive" case against China's violation of its WTO accession promises. Just launching the complaint would show the leadership in Beijing, and its people, that China cannot grow at others' expense. Done properly, addressing these distortions could strengthen the WTO, reduce US-China tensions, and prevent transatlantic trade conflicts.

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Peter Chase joined GMF's Brussels office in September 2010 as a non-resident fellow and became a resident senior fellow in May 2016. His work focuses on the transatlantic economy with particular attention to trade and investment, digital and energy policies, and the EU's economic relations with third countries.

Chase served as the U.S. Chamber of Commerce vice president for Europe from 2010-16; prior to this he was a U.S. diplomat with postings as minister-counselor for economic affairs in the U.S. Mission to the European Union, director of the State Department's office of EU affairs, chief of staff to the under secretary of economic affairs, and counselor and minister-counselor for economic affairs in the U.S. Embassy in London.

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