

BLOG POST

TRUMP'S TRADE WAR: A DELIBERATE CHOICE

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Credit where credit is due: Donald Trump has given the old industrialised powers a strategic wake-up call on China. Indeed, he has unambiguous support on this from both Republicans and Democrats. He has pressed Europeans to mobilise against China and in many European capitals you can now hear the whispers of “systemic rivalry”. He has also encouraged Australia and other countries to reduce their dependence on the Middle Kingdom.

Although this shift had already begun under Barack Obama, it accelerated when Trump changed the tactics. He didn't take the path of arbitration at the World Trade Organization (WTO), where the US in the past filed and won complaints against China's unfair trade practices. He also didn't build collective pressure by signing a trade agreement with eleven other countries in the Trans-Pacific Partnership (TPP). Instead, Trump opted for an aggressive unilateral route.

Customs duties have become weaponized and are blackmail to force negotiations. During the Obama administration, customs duties on Chinese goods imports increased by seven per cent. Trump imposed seventy per cent of Chinese imports with an average customs duty of nearly twenty per cent. The return to a mercantilist policy of widespread and systematic import reduction of imports, including those from traditional allies, has forced the revision of some trade agreements (e.g. NAFTA and South Korea) and new bilateral negotiations, in particular with Japan and China. Impact assessments are cautious on the economic benefits of these agreements for the US – in particular the gains from the new United States–Mexico–Canada Agreement (USMCA). And yet, judging from the health of the US economy – which grew by 2.4 per cent on the eve of the pandemic with an unemployment rate of 3.6 per cent – the unilateral approach seems to be working. The structural growth of the American trade deficit in the goods sector may even have marginally slowed.

But Trump's policies penalise not only countries that export to the United States. American companies are now also facing prohibitive import costs. In the steel sector, for example, the US has 1 employee producing steel for every 80 who process it. The tariff increase thereby cancels out any potential benefits from Trump's tax reform. On average, US customs duties have tripled in the last two years. Eighty-four per cent of all exporters have been exposed to increased import prices on inputs for their exported finished products. The relocation of manufacturing jobs to the US was one of Trump's key election promises in 2016. Yet the manufacturing sector contracted by 1.3 per cent in 2019 and job creation is in fact in line with the growth of the labour force. It is the service sector that continues to drive US growth.

At the end of 2019 the International Monetary Fund estimated that the full range of Trump's tariff measures and the retaliatory responses from trade partners, including the European Union, would reduce global growth by 0.8 per cent in 2020—the equivalent of Switzerland's GDP. With a turn away from international institutions, going as far as stifling the WTO Appellate Body for Dispute Settlement, Donald Trump has reduced the space for multilateral cooperation and jeopardized predictable rules for business. Moreover, the agreement with China is essentially transactional. It aims to secure more US exports in the short term but does not succeed in limiting unfair competition from Chinese state-owned enterprises. Finally, the US Congressional Budget Office estimated in early 2020 that Trump's tariffs would reduce US GDP by more than one hundred billion dollars over the year. The impact of price increases for every American consumer is estimated at nearly two thousand dollars per year. The cumulative effect of this instability and the uncertainty linked to the pandemic has yet to be evaluated.

A second term for Donald Trump would further bolster his ambition to relocate production to the United States. America's partners would come under increasing pressure to align themselves with US interests in an antagonistic way—for or against China. This might accelerate the realignment of the Chinese economy towards domestic consumption. Bans on the export of American technology, such as semiconductors, will push Beijing to further reduce its dependence on imports of foreign technology, by subsidising the development of domestic production even more vigorously. Trump would paradoxically run the risk of accelerating the growth of China's power !

Nevertheless, we should not expect a major reversal of US policy towards China if Joe Biden were to win the elections. He may be more open to international cooperation, especially across the Atlantic, in an attempt to discipline Chinese state capitalism. But the reshoring of Chinese production chains would also be high on his list. On the other hand, Biden has called for more subsidies towards strategic sectors and for a more aggressive stance on restricting access to government procurement markets for foreign companies—at the risk of pulling the US out of the multilateral Agreement on Government Procurement (GPA). Above all, Biden's commitment to fight climate change would most distinguish his trade policy from that of Trump. The introduction of a carbon border adjustment mechanism, echoing the European approach, would mark a profound change. It would put the defence of a global public good ahead of "America First". ■

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