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Trump's Trade Policy: Protectionism Bluster

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The Trump administration's trade policy is mostly bluster. The declarations of withdrawal from international agreements or threats to introduce protectionist measures are meant to serve the U.S. president to achieve economic and political benefits. However, these threats are voiced too often, have become unreliable, and have had only limited effect. While America's partners need to be prepared in case Trump's declarations are enacted, the stability of the U.S. economy, the strength of its alliances, and pressure from business and politicians—including Republicans—reduce the likelihood they will be pursued.

Donald Trump, both during his campaign for president and in the first months of his presidency, created uncertainty around U.S. trade policy by describing the country's economic relations as unfair and calling for them to change. Mostly, he stressed the need to reduce the high total trade deficit (over $750 billion in 2016). He threatened to enact protectionist measures, which were used first to win the support of voters and then later as president to try to strengthen the U.S. negotiating position with other states.

Protectionist Bluster. One of Trump's first decisions as president was to withdraw the U.S. from the Trans-Pacific Partnership (TPP), a regional trade deal. However, since it had not yet entered into force, the pull-out has had no effect on existing trade relationships and only forestalled any potential benefits or losses. The TPP withdrawal was supposedly a step towards negotiating distinct bilateral deals with individual signatories of the larger deal such as Japan, with the aim to conclude a pact with favourable conditions for the U.S. than the 12-nation agreement. But talks with bilateral partners have yet to start. The U.S. has launched renegotiations of the North American Free Trade Agreement (NAFTA); however, the American president initially threatened to simply withdraw from the agreement while Canada and Mexico sought to update it. There is no certainty the renegotiations will allow the U.S. president to achieve the goal of reducing the U.S. trade deficit with these partners. Next, Trump's decision in June to withdraw the U.S. from the Paris climate agreement was loud, but the real procedure can start only after two and a half years.

Trump's threats towards China on trade and currency during the campaign have given way to a softer stance since February 2017, when the president admitted that there was no basis for recognising China as a currency manipulator. During Chairman Xi Jinping's visit to the U.S. in April 2017, the two sides signed an economic agreement that included opening the Chinese financial services market to U.S. companies. The deal proved Trump's pragmatism but is far too narrow to help reduce the trade deficit with China, at about $350 billion in 2016. The U.S. president had hoped that his newfound good relations with Xi would lead to greater Chinese engagement in the efforts to denuclearise North Korea. However, the North's successive ballistic missile tests and a thermonuclear underground test demonstrated the limitations of this strategy. As a result, Trump renewed his criticism of China, increasing U.S.-China tensions, leaving the U.S. administration reviewing the relationship while it prepares for Trump's visit to China in November.

The pressure on China increased on 18 August with the announcement of a U.S. investigation into the theft of intellectual property and improper technology transfers by the Chinese government. According to Section 301 of the 1974 Trade Act on which the investigation is based, a U.S. president can impose any unilateral barriers without limitations on amount or duration to force China to cease the unfair practices. U.S. Trade Representative Robert Lighthizer has been given one year to investigate and propose remedies on this issue.

The result of the investigation is not certain, as indicated by two reports prepared by the U.S. Department of Commerce for the president. The first report was to be an analysis of the causes of the U.S. trade deficit and would list unfair export practices by individual countries. The second was a partial result of an investigation based on Section 232 of the U.S. Trade Expansion Act of 1962 into the impact on American national security of exports to the U.S. of excess steel and aluminium by foreign producers. The administration suggested that measures that could be taken based on the report may include duties on all imported steel and aluminium, rather than specific products, and regardless of the country of origin. Any ban could, therefore, affect not only imports from China but also, for example, from Germany. However, the details of both reports were not published and any actions tied to them have been delayed. Therefore, the measures imposed until now have primarily taken the form of anti-dumping and countervailing duties per standard U.S. procedure. Since the beginning of the year, the Department of Commerce has launched 65 investigations into unfair trade practices (21 more than in 2016) and nearly 10 protective measures have been imposed (both provisional and final). These include provisional duties on imported softwood lumber from Canada amounting to 24% of its value, aluminium foil from China at up to 81% of its value, and a 220% duty on a Canadian Bombardier airplane.

Withheld Protectionism. In contrast to his campaign announcements, Trump has not required his administration to impose tariffs on trade with countries that contribute significantly to the U.S. trade deficit, namely China, Japan ($70 billion), Germany, Mexico (the latter two both at $65 billion). What is more, without fulfilment, some of the threats have lost credibility. Trump twice announced the U.S. would withdraw from NAFTA, but has not. Claims the U.S. would breach its free trade agreement with South Korea were denied after only a few days had passed and promises to put an end to the trade deficit with Germany have had no follow-up.

There is little indication that Trump will make good his pronouncements. Three factors contribute to this: first, the stable U.S. economy (including low unemployment), which could be shaken by both a significant increase in import costs and retaliatory actions by trade partners; second, the importance of U.S. political and military alliances to its international position (e.g., with South Korea); and, third, the American business and political establishment oppose the disruption of relations with major partners. Meanwhile, supporters of protectionism have been weakened inside the administration. In August this year, their most influential supporter, Stephen Bannon, left the White House, and Peter Navarro, head of the trade and employment policy office who opts for a hard-hitting course with China, was also marginalised. Wilbur Ross, secretary of commerce and considered one of Trump's closest advisers, was reported to have argued with the president after the secretary recommended a Chinese offer to solve the problem of oversupply in the steel market.

Perspectives. Trump faces a dilemma: decisive action related to commerce could improve the situation of some U.S. economic sectors, but at the expense of the deterioration of the overall economy and relations with other countries. On the other hand, abandoning his threats would mean admitting to the bluff and deprive him of credibility. So far, Trump has taken actions that have not had significant negative economic consequences in the short term but served to retain the support of his electorate, who demand the U.S. take firm actions on the international arena. This approach will probably continue for the foreseeable future, which will enable the U.S. to reach bilateral economic agreements (including export restrictions to the U.S.) and adopt anti-dumping and countervailing duties based on investigations. This will preserve support from business and may save the U.S. from retaliation or excessive price increases.

Trump's protectionism seems limited to rhetoric and a reduction of the role of multilateral forums. If this approach continues, significant transatlantic trade disturbances will be avoided and only individual sectors may be subject to duties imposed within the usual U.S. procedures. By not imposing unilateral restrictions on trade with key partners, specifically China, Japan, or Mexico, the U.S. may avoid chaos in international trade, which would negatively impact economic growth in the EU and Poland.