Decoding what the Trump administration wants on trade

Heather Timmons and Eshe Nelson

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Donald Trump's "America First" agenda will shrink the US trade deficit and overturn "decades of unfair trade deals that sacrificed our prosperity and shipped away our companies," the president promised at last week's State of the Union address.

But translating that rhetoric into concrete trade policy is a thorny task for Trump's top advisors, who were welcomed at the recent World Economic Forum in Davos for clues to Trump's administration really wants, and how it plans to manage the world's biggest economy. Quartz found their public statements left more questions than answers.

The administration maintains its perplexing focus on trade deficits

The administration's focus on the US trade deficit, which Trump has called "disastrous," continues to perplex outsiders.

Richard Baldwin, a professor at the Graduate Institute in Geneva and president of the Centre for Economic Policy Research, described his conversation with US trade representative Robert Lighthizer to Quartz: Lighthizer described the US trade deficit as a sign that the world's most open economy is being taken advantage of. "That is like trying to gauge whether your broken leg is getting better by asking yourself if you still have a headache—they are not related," Baldwin adds.

"A trade deficit means you are consuming and investing more than you're producing," he said. "There is nothing you can do to rebalance that unless you bring your production and your consumption more into line." The gap between what the US imports and what it exports jumped 12% in 2017, the Commerce Department reported on Feb. 6, as the annual trade deficit hit $566 billion, the highest figure since 2008.

One way to try to rebalance the trade deficit could be raising exports of liquified natural gas, or LNG, which Ross championed during Davos panels, touting the administration's rollback of the "regulatory burden to the energy sector" that made this possible. Exporting the equivalent of one million barrels a day of petro-carbon products could shift the trade deficit by $50 million a day, he told reporters.

The US is holding WTO hostage—but for what?

"We do think that somebody needs to be the rule-maker or arbiter of global trade," US commerce secretary Wilbur Ross said during a panel at Davos. Traditionally, that rule maker is the World Trade Organization (WTO). But at NAFTA talks in Montreal on Jan. 29, Lighthizer threw doubt on the future of the organization, asking, "What sovereign nation would trust to arbitrators or the flip of a coin their entire defense against unfair trade?"

The White House worries that the 164-country organization is "making law where it wasn't intended to," said Tim Brightbill, an international trade law specialist and partner with Wiley Rein, who has represented the US solar manufacturing industry in several recent high-profile trade cases.

In an apparent strategy to gain leverage to change the WTO, the Trump administration is currently blocking the appointment of new judges.This knee-caps the agency's ability to settle trade disputes.

The approach seems to be "if we create uncertainly than everyone will panic and give us what we want," says Simon Lester, a trade policy specialist with the Cato Institute. But while the White House figures out what it wants from the WTO, the repercussions can be felt worldwide. "The dispute settlement system is the one part of the WTO that still functions," Lester said.

Negotiations have proved impossible because the WTO's members can't come to a consensus, adds Brightbill, so "the dispute settlement process is increasingly resolving what should have been resolved through negotiations." Blocking judges in the appeals court means the system just breaks down. In the worst case scenario, without a functioning WTO individual countries could start taking decisions into their own hands, and applying, say, 100% tariffs to trading partners they were battling with.

The US needs new bilateral partners

Trump's trade policy is based on righting a perceived imbalancebetween other nations and the US. As an example of how the US is disadvantaged, the Ross cited auto import tariffs between nations, with the US charging a measly 2.5%, and countries like China as much as 25%. Fixing the problem would require new bilateral trade agreements with individual countries or regions, a solution that fits well with Trump's stated goal crafting new "America First" trade deals.

But crafting such agreements takes a long time—probably two years, minimum, according to Lester, when everything from tariffs to intellectual property to state subsidies are factored in. The US said in August that NAFTA renegotiations would be finished by the end of the year, he points out.

“You can’t negotiate sector by sector,” said Lester. “You can go to the EU or China and negotiate a comprehensive trade agreement,” and within that agreement set ranges for import duties on sectors like cars. Right now the US doesn’t have a Free Trade Area or Customs Union agreement with Europe, or Japan, or China, or New Zealand, he noted.

The Transpacific Partnership would have created US trading partners from over a dozen countries at one point. Expect the Trump White House to start new bilateral trade deals with a handful of countries—but don’t expect those to have a quick impact on deficit.

China is the new Japan

In his speech to the World Economic Forum, Trump took aim at China without mentioning the country by name. “The United States will no longer turn a blind eye to unfair economic practices, including massive intellectual property theft, industrial subsidies, and pervasive state-led economic planning,” he said.

Trump’s pugilistic attitude towards China is comparable to the George H.W. Bush White House in the 1990s, says Baldwin, who served that White House as an economic advisor. Then, the US and Japan were butting heads over trade, he recalls. The present day situation is “the same level of nationalism and antipathy against a particular nation, [but] this time it’s China.”

The US’s trade deficit with China jumped 8.1% in 2017, to hit a record $375.2 billion, and Trump’s trade advisors have already taken what action they can for now: The Department of Commerce recommended in mid-January that Trump raise tariffs against steel and aluminum imports, in what’s known as a Section 232 investigation. And last August the US trade representative’s office (USTR) opened a so-called Section 301 investigation against China’s intellectual property theft.

One hurdle to the US forming a sophisticated, coherent China trade policy is the fact that the USTR office is still understaffed at the top levels, missing deputies and a chief negotiator on agriculture and intellectual property.

And whether the White House actually acts against China, though, is now at the discretion of the president, who values his relationship with Chinese president Xi Jinping, even as he criticizes Beijing‘s actions on Twitter.

Here too, global trade experts are looking for more clarity. “Do you want them to privatize their companies, or propose some constraints on their behavior?,” said Lester. “Whatever it is, spell it out,” he said.