Opinion – Bidenomics: US Trade Policy under a Biden Presidency

https://www.e-ir.info/2020/10/15/opinion-bidenomics-us-trade-policy-under-a-biden-presidency/

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During his 2016 presidential campaign, Donald Trump promised a radical shift in US trade policy: ending the disastrous trade agreements made by the 'weak' and 'foolish' establishment in Washington that 'ripped off' the United States. One of his first acts as president was the withdrawal from the Trans-Pacific Partnership (TPP), a free trade agreement with eleven pacific nations that was signed by the Obama administration but had to be approved by Congress. The Trump administration renegotiated the North America Free Trade Agreement (NAFTA) which led to the signing of the United States-Mexico-Canada Agreement (USMCA). It refused to fill new positions at the appellate body of the World Trade Organization (WTO) and thereby paralyzed and defunct a central part of the WTO dispute settlement mechanism.

Most importantly, the Trump administration imposed tariffs on steel and aluminum against several countries around the world, including China, Brazil, and the European Union. In the case of China, the Trump administration began a full-blown trade war with tariff hikes on $250 billion worth of Chinese imports. While the Trump administration agreed on a so-called 'phase one' deal with China, the imposed tariffs are still in force. The deal with China can be rather seen as a 'trade ceasefire' than a long-lasting 'trade peace'. It sets unrealistic purchasing goals for China, addressing only rudimentarily structural problems of China's neo-mercantilist economic model, and favors deal termination over institutional conflict resolution in case of trade disputes.

Despite these major shifts in US trade policy, President Trump could not achieve his primary objective to lower the US trade deficit. While the US trade deficit in goods with China has fallen slightly from $367 billion (2015) to $347 billion (2019) (although it has fallen dramatically compared to last year; $419 billion in 2019), the overall US trade deficit in goods grew from $735 billion (2016) to $854 billion (2019). The reason is that the negative US trade balance is mainly driven by the higher US consumption rate and lower US saving rate, as compared with other countries. The trade war with China has just diverted trade and increased the US trade deficit with other countries. The Tax Cuts and Jobs Act of 2017 also increased the consumption rate and federal budget deficit, which both caused a higher trade imbalance.

Although economists would agree that a trade deficit is not necessarily bad (for example, the United States increasingly imports investment goods which are expected to strengthen the US competitiveness), Trump could not fulfill his campaign promise. Yet, he could achieve a major shift in US trade policy that will last even under a potential Biden presidency. The Biden campaign already emphasized that Joe Biden would primarily focus on rebuilding the domestic economy, true to his slogan 'Build Back Better'. The major pillar of Bidenomics is a promised stimulus package to tackle the current economic crises caused by the corona pandemic. Biden's economic plan calls for an additional spending of $7.3 trillion within the next decade: $2.4 trillion for infrastructure and clean energy and $1.9 trillion on education. The economic plan is partially financed by higher taxes. By increasing the corporate tax from 21 percent to 28 percent and rolling back tax deductions for taxpayers with income over $400,000 would create additional tax revenues of approximately $4 trillion. Biden's economic plan includes a public investment of $400 billion which is attached to a 'Buy American' provision to revive US manufacturing.

Trade policy, however, plays no big role in Biden's campaign and economic plan. So what can we expect in US trade policy under a President Biden? On the one hand, it can be assumed that he would reverse some of Trump's shifts in trade policy. First, even if Biden would not just rejoin the TPP as it was signed, he promised to renegotiate the deal to improve labor and environmental standards and counter-balance China. Second, it is likely that a Biden administration would drop imposed tariffs against allies such as the European Union (EU). To what extent a Biden administration would push forward a trade deal with the EU is hard to predict. While Biden highlights in his campaign that he plans to 'lead the democratic world', trade policy is no priority for him.

On the other hand, a Biden administration will be locked into some of Trump's trade policies. First, a Biden administration would most likely not rush to fill the WTO appellate body so that trade dispute settlements can work smoothly again. Even if Biden stands for a stronger multilateralism, his 'Buy American' provisions for public procurement violate WTO rules. Thus, a Biden administration has no incentive to return quickly to business as usual, but rather to reform the WTO, which will be a difficult and lengthy undertaking. Second, a Biden administration will not lift the tariffs against China. Biden's tough attitude toward China is in no way inferior to Trump's. It would look weak to China and the domestic voters when Biden would just give in without striking a new deal with China, which is highly unlikely to be achieved anyway. In the United States, negative views of China have increased by nearly 20 percentage points – from 55 percent (2016) to 73 percent (2020) – since the beginning of Trump's presidency. Thus, Biden's hands are tied.

Regardless of the policies pursued, it can nevertheless be expected that a Biden administration would go back to a more cooperative negotiation approach. The Trump administration followed an aggressive 'maximum pressure' strategy. By questioning existing trade agreements and institutions such as NAFTA and the WTO, the Trump administration wanted to signal that it is not desperately seeking agreements and thus hoped to increase its bargaining leverage. The Trump administration was also in favor of bilateral negotiations because it assumed that this would additionally strengthen its bargaining leverage. In contrast, a Biden administration will rely less on direct threats to impose tariffs or end existing cooperation. It will also favor a multilateral approach. In particular, in the negotiations vis-à-vis China, the Biden administration will most likely try to coordinate with the EU and other countries to pressure China for reforms.

Even if President Trump loses the upcoming election, his trade policy will leave a lasting mark on US trade policy. While we can expect changes in the negotiation approach if Biden should be elected president, US trade policy will not go back to 'business as usual', especially concerning China. Biden's priorities suggest no return to the pre-Trump status quo. The days when the United States led the way for free trade and a liberal world trade system seem to be over since President Trump took office and will remain the case for at least the next four years.

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