

Trump's Trade Wars: Willful Ignorance and Failed Policies

Kenneth A. Reinert

Forthcoming in R.P. Watson, D.M. Brattebo and T. Lansford (eds.), *The Trump Term: Scholars Assess its Unprecedented Impact on the American Presidency and the Future of the Republic*, SUNY Press.

For most trade policy analysts, the Trump administration was a time of discord and disaster. President Trump was known for his disregard for institutions and norms (e.g., Pfiffner, 2021), and he carried these tendencies into the trade policy realm with a frenzy. In this, he was supported by a few notable actors inspired by economic nationalist and anti-China postures. These included the economist Peter Navarro who held multiple positions in the administration, the trade lawyer Robert Lighthizer who held the position of United States Trade Representative (USTR), and television pundit Larry Kudlow who was head of the National Economic Council. Together, this team did a great deal of damage to the institutional underpinnings of the global trading system. For the hoped-for second term, the trade policy plan is even more extreme and forms part of Trump's vision of "retribution." It would not be an exaggeration to state that the health of the global economy, and consequently the prospects of the US economy, depend upon a Trump defeat in the 2024 US presidential election.

This chapter will first locate the impetus of the economic nationalist trade agenda of the Trump administration in the US steel sector. Next, it will consider the damage done by the administration to the World Trade Organization (WTO). It will then consider the administration's failed trade war with China, the relationship of this to its obsession with bilateral trade balances, and COVID-19 trade policy blunders. The chapter will conclude by assessing trade policy plans for a second Trump administration.

Protecting Steel on Spurious Grounds

Given USTR Robert Lighthizer's previous role as a legal representative of the US steel industry, a lot of the pernicious trade policies of the Trump administration rest on the interests of this sector despite the fact that it represents a *tiny fraction* of total US employment (approximately 0.09 percent in 2023, see <https://www.bls.gov/ces/>). In March 2018, the Trump administration increased tariffs on steel imports by 25 percent (and on aluminum imports by 10 percent). Lee (2019) referred

to the steel tariffs as “among the largest trade measures in history” (p. 482). The tariffs were imposed under Section 232 of the US Trade Expansion Act of 1962, the national security exception of US trade law (US Department of Commerce, 2018). This action therefore invoked the seldom-utilized Article XXI of the General Agreement on Tariffs and Trade (GATT), a national security exception differing in some important respects from Section 232.

The Department of Commerce report justifying these actions noted that Section 232 does not provide a definition of national security. Consequently, it chose to utilize a very broad definition, explicitly *beyond national defense*, namely, “the general security and welfare of certain industries, beyond those necessary to satisfy national defense requirements” (p. 1). It also linked national security (and steel) to 16 critical infrastructure sectors and introduced the goal of limiting imports to target a particular capacity utilization rate (80 percent) in US steel mills.

As noted in Reinert (forthcoming), the US Department of Commerce report contained a critical, convoluted statement:

The free market system in the United States requires commercially viable steel to meet defense needs. No company could afford to construct and operate solely to supply defense needs because those needs are too diverse. In order to supply those diverse defense needs, U.S. steel mills must attract sufficient commercial (i.e., non-defense) business (p. 23).

However, the report noted that the US Department of Defense only requires *three percent* of US steel capacity for its needs. What becomes clear is that, given that such a small fraction of US steel capacity is required for national defense, in order to argue for steel protection on “national security” grounds, the Trump Administration was *forced* to utilize as broad a definition of “national security” as possible, extending beyond *actual* national security to critical infrastructure and even a vague notion of the threat of “weakening our internal economy” (p. 14).

The invocation of Section 232 and therefore GATT Article XXI in support of steel protection elicited several responses. First, Canada, China, the EU, India, Japan, Mexico, Norway, Russia, Switzerland, and Turkey filed dispute settlement measures at the WTO. Second, Canada, China, the EU, India, Mexico, Russia, and Turkey retaliated with their own tariffs. In addition, Argentina, Brazil, and South Korea entered questionable quota arrangements with the United States. During the subsequent Biden administration, WTO panels were addressing complaints by

China, India, Norway, Russia, Switzerland, and Turkey regarding steel tariffs. In December 2022, the WTO issued a panel report on the China, Norway, Switzerland, and Turkey complaints. Not surprisingly, the panel found that the US Trump administration's tariffs were in *violation* of WTO rules (World Trade Organization, 2022).

This series of events was a reminder of why WTO members had previously avoided using national security exceptions to support protection of economic sectors. The Trump administration showed no such wisdom. As discussed in Lee (2019) and Reinert (forthcoming), the Trump administration's invocation of national defense in support of protection of the steel sector was entirely spurious but motivated by a misplaced economic nationalism and the loyalty of the USTR to his steel sector clients.

Damaging the World Trade Organization

The Dispute Settlement Understanding (DSU) of the WTO involves a structure of consultation, panel reports and Appellate Body reports with the important element of a negative consensus rule. That is, panel and Appellate Body reports stand unless there is a consensus *against* them, a feature described by Jackson (2000) as “ingenious” due to the fact that “since the winning party could always object and block the consensus, the adoption is considered to be virtually automatic” (p. 385). In other words, as a practical matter, at least one WTO member would want a report to stand and would not join an effort to overturn it. Beginning in 1995, this transparent dispute settlement system operated relatively successfully in more than 500 cases. Despite or perhaps because of this success, the US Trump administration rendered the Appellate Body inoperable in December 2019.

Appointments to the Appellate Body are by consensus, and the Trump Administration's strategy was to starve it via veto of the requisite number of members (three). In the words of Bown and Keynes (2020), Trump “shot the sheriffs.” The reasons for this were many, but the primary one identified by Bown and Keynes (2020) was the number of cases brought against US trade remedies in the form of antidumping and countervailing duties, as well as safeguards, especially for the steel sector. One interpretation of this situation, however, is that it simply reflected the *overuse* by the United States of these trade remedies.

The Trump administration USTR Robert Lighthizer appeared to be at the center of this policy process. Lighthizer had the WTO Appellate Body in his sights because it ruled against his past steel sector clients. For example, Bown and Keynes (2020) noted that Lighthizer “harbored both

longstanding hostility toward the WTO and a deep familiarity with the desires of import-sensitive industries such as steel” (p. 800). The Trump administration’s USTR was in a very real sense a representative of the steel sector and, as discussed in Reinert (forthcoming), Lighthizer hobbled the WTO’s dispute settlement system for these past clients.

Surprisingly, the subsequent US Biden administration largely sailed in the Trump administration’s wake, changing the tenor of its trade policy but not much of its substance. While it tried to avoid antagonizing allies and removed the objection to naming a new WTO Director General (Ngozi Okonjo-Iweala), it continued to block appointments to the WTO’s Appellate Body, vaguely citing “systemic concerns” and validating the Trump administration’s serious attack on the world’s trading regime.

There are of course, valid questions regarding the Appellate Body and its functioning, but to effectively eliminate it altogether in the hope of some future redrafting of the DSU under which it operates is counterproductive. Calls for reform of the DSU are entirely legitimate, but taking the system hostage to press for reforms displays bad faith. This action ignores the history of the Appellate Body, the role of the United States in developing it, and its central position in the global trading system. Without a functioning Appellate Body, dispute resolution within the WTO reverts to old-school power politics, and that seems to be what the Trump administration intended.

Failed Trade War with China

Economist Peter Navarro had caught presidential candidate Trump’s eye as coauthor of the book *Death by China* (Navarro and Autry, 2011). As a result, despite a lack of background in trade policy, Navarro was given multiple positions in the Trump administration, went on to repeatedly violate the Hatch Act prohibiting US Federal Employees from engaging in political activities (Solender, 2020), and was ultimately imprisoned for his role in the 6 January 6 2021 insurrection. His trade policies are generally considered to be far outside the mainstream (e.g., *The Economist*, 2017). The resulting policies pursued by that administration with respect to China were described by Bown and Irwin (2019) as involving “the economic decoupling of the United States and China” and “a historic fragmentation of the world economy” (p. 134).

The Trump administrations complaints against China were, in the main, legitimate. These complaints included theft of intellectual property, subsidies to state-owned enterprises, and forced technology transfers. The European Union and Japan had identical concerns, and some of these

concerns could have been addressed at the WTO. Rather than coordinate with the EU and Japan and work within the WTO, however, the Trump administration chose unilateral tariff retaliation in the form of increased tariffs on US\$50 billion of imports from China. China, of course, retaliated, sparking a trade war.

Trump famously claimed that “trade wars are good and easy to win” (Reuters, 2018). They are *not*, and subsequent events proved the Trump administration to be completely wrong on this count. China increased tariffs on just under US\$200 billion worth of US goods, targeting the agricultural sector. In what has been described as one of the largest trade measures in history, the Trump administration in the end placed tariffs on US\$350 billion of imports from China and was forced to bail out US farmers with over US\$20 billion in support. However, as reported by Irwin (2020), this “compensated them for only a fraction of their financial losses” (p. 111). To no surprise, in 2020, the WTO ruled the unilateral tariffs imposed by the United States on China violated its most-favored nation (MFN) principle.

As shown by Bown (2021, 2022), the “success” that the Trump Administration claimed under the “phase-one deal” reached with China in early 2020 was completely illusory. Under this “deal,” China agreed to increase its imports by US\$200 billion of US goods over 2017 levels, distributed over manufacturing, services, agriculture, and energy. It represented a managed trade process, and never fully bore fruit, falling far short of the targets. As of the end of 2021, China had not even reached 60 percent of its committed imports. And given the decline in China’s imports from the United States, relative to the baseline projection, China actually bought *none* of the additional exports. The ‘phase-one deal’ was a *complete failure*.

There is also the issue of who paid for Trump’s trade war. President Trump himself repeatedly claimed that the tariffs were paid by China directly to the US Treasury (Reuters, 2019). While this is a remote theoretical possibility in the economic analysis of tariffs, it requires very unusual assumptions about price elasticities. Not surprisingly, subsequent economic analysis suggested that the bulk of the costs were absorbed by US households and firms in the realm of billions of US dollars per month (Amiti, Redding and Weinstein, 2019). Once again, President Trump’s trade policies were shown to be completely misguided.

Obsession with Trade Balances

In open-economy macroeconomics, a country's overall trade balance is a result of the balance between aggregate domestic investment and aggregate domestic savings (e.g., Reinert, 2021, Chapter 14). For example, when domestic investment exceeds domestic savings (both household and government), foreign savings makes up the difference. This foreign savings corresponds to a surplus on the capital/financial account of the balance of payments, and where there is a capital/financial account surplus, there must be a current account deficit. The bulk of the current account in most countries is the trade balance, so this translates into a trade deficit. The overall trade balance is therefore a *macroeconomic variable* largely unaffected by trade policies. Trade policies can affect how this trade balance is apportioned among sectors and trading partners, but not the overall balance itself.

The Trump administration ignored this principle and used the overall trade balance as a measure of success or failure, as well as a measure of “fairness.” It went a step further and substituted the balance of trade in *goods* for the overall trade balance because goods represent “industry,” and the services balance is therefore less important. For example, upon entering office in January 2017, President Trump issued an executive order calling for a report on “significant trade deficits” (Executive Office of the President, 2017). This executive order stated:

For many years, the United States has not obtained the full scope of benefits anticipated under a number of international trade agreements or from participating in the World Trade Organization. The United States annual trade deficit in goods exceeds \$700 billion, and the overall trade deficit exceeded \$500 billion in 2016 (p. 16721).

The implied cause of these deficits was not macroeconomic balances but “unfair trade and discriminatory trade practices” of trade partners that “put the commerce of the United States at a disadvantage (p. 16721).”

It is worth assessing this policy stance in the light of the actual trade balance of the United States during the Trump administration shown in Figure 1. The first thing we see is that, during the Trump administration, the overall trade balance *worsened*. Given the strong protectionist measure enacted during this administration, how was this possible? The answer is, of course, macroeconomic. The signature piece of legislation of the Trump administration (really that of US

Senate Majority Leader Mitch McConnell) was a large set of ill-timed tax cuts. This reduced aggregate domestic savings (via reduced government savings) and therefore contributed to an expanded overall trade deficit as suggested by basic macroeconomic principles.

Disaggregating, the beloved trade in goods balance worsened as well. Given that this was perhaps the most important economic variable in President Trump's worldview, this fact is notable. It is also notable that the balance of trade in services, on a long-term upward trend before the Trump administration, also worsened, contributing to a more precipitous decline in the overall balance.

The Trump administration's executive order's call for action on the part of the US government was as follows:

Assess the major causes of the trade deficit, including, as applicable, differential tariffs, non-tariff barriers, injurious dumping, injurious government subsidization, intellectual property theft, forced technology transfer, denial of worker rights and labor standards, and any other form of discrimination against the commerce of the United States or other factors contributing to the deficit (p. 16721).

Each of these targets was a trade or trade-related policy of some kind. Each might have had relevance in the trade policy realm and could have been reasonably investigated. But they were *not relevant* to the overall trade balance of the United States. The Trump administration's failure to understand basic economic principles was on full display. Consequently, even judged by its own yardstick, the administration's policies were a failure. Importantly, as will become apparent, Trump administration trade officials have not learned any lessons from this episode and are planning to return with even more vigor to their failed policies in a hoped-for second administration.

COVID-19 Blunders

On 21 September 21 2020, Trump declared that COVID-19 "affects virtually nobody" (Thrush 2020). By the end of his term, more than 400,000 US citizens had died of the disease, and this was in part due to Trump's negligence (Woolhandler et al., 2021). Incredibly, in July 2020, President Trump announced that the United States would withdraw from the World Health Organization (WHO) in the middle of the pandemic, and in November 2020, attending the G7 meeting, President Trump skipped the session on pandemic response to play golf (Kahl and Wright, 2021, p. 190),

one of the more than 300 days of his presidency he engaged in that activity (e.g., Vazquez, Hickey and Krishnakumar, 2020). In December 2020, with the number of US deaths surpassing its combat deaths in World War II and intensive care beds in critically short supply, President Trump referred to the US infection rate as “terrific.” His entire response to the pandemic was characterized by politicization, misinformation, and gross negligence. As noted by Kahl and Wright (2021), “from the time Trump heard of the dangers posed by the virus, his instinct was to minimize it” (p. 2). These authors also concluded that he was “the world’s top purveyor of misinformation about the virus and public health” (p. 14). For Trump, the pandemic “was not a public health crisis so much as a political one” (p. 134).

Despite its manifest failings in addressing the pandemic, the Trump administration was quick to leverage it to defend and accelerate its poorly thought-out trade policies. For example, as the deaths from COVID-19 reached 100,000 in the United States, USTR Robert Lighthizer (2020) referred to the pandemic as an opportunity to reshape trade relations and had the audacity to refer to these trade relations (and not the pandemic) as a “disease.” Senior Trump Administration advisor Peter Navarro echoed Robert Lighthizer, stating (Politi, 2020):

This is a wake-up call for an issue that has been latent for many years but is critical to US economic and national security.... If we have learned anything from the coronavirus and swine flu H1N1 epidemic of 2009, it is that we cannot necessarily depend on other countries, even close allies, to supply us with needed items, from face masks to vaccines.

These postures set the stage for an episode of pandemic-related trade policies that did little to address the real trade issues that arose during that event. One major issue was that of personal protective equipment (PPE) and medical supplies, which became an unnecessary issue in US-China trade relations. As explained at the time by Baldwin and Evenett (2020):

The US is heavily dependent on imports of PPE while simultaneously being a major exporter of PPE. And the same is true of China. Indeed, the US is China’s number one customer and China is the US’s number four. Plainly, a tit-for-tat retaliation between the US and China in PPE would hinder the supply of PPE in both nations (p. 8).

Further, there was a consensus among trade policy analysts that export restrictions in PPE and medical equipment would result in prices both higher and more volatile than they otherwise would be. In the case of PPE export restrictions that were put in place during the pandemic, these price effects proved to be real, with consequent negative impacts on front-line health workers that undermined pandemic response (Espitia, Rocha and Ruta, 2020). Misreading this reality, early in the pandemic, Trump advisor Peter Navarro proposed rules to force the US health care system to only purchase US-produced PPE and medicines, even though the United States did not have the necessary capacity (Goodman et al., 2020). The Trump administration also began to put export restrictions in place under the US Defense Production Act (DPA), restricting access to PPE in many Latin American countries.

Trade restricting directives such as these ignore the complexities of suppliers, assume that the imposing countries will not be affected by tit-for-tat actions in other countries (including on key PPE manufacturing inputs), ignore the fact that the imposed lack of export opportunities can reduce the incentives for new market entrants in medical sectors with large, fixed costs, and significantly increase overall market uncertainties. Consequently, during 2020, the global PPE market was described by Bown (2020) as being in “chaos.”

The truth is that, as described by Stelling, Berglund and Isakson (2020), there are perhaps *one million* medical technologies, and not even technologically advanced countries can produce them all. Perhaps equally important, the global value chains (GVCs) for these products can be very complex and are spread out over many countries. Further, the structure of the GVCs can vary from one medical product to another. While prudential diversification of these GVCs is always wise for the firms involved and their customers, complete “reshoring” as called for by the Trump administration is simply not viable (e.g., Gereffi, Pananond and Pedersen, 2022). Indeed, Baldwin and Evenett (2020) stated that “a liberal world trading system gives health ministries, hospitals, and other medical service providers a wider range of suppliers to choose from.... This facet of globalisation should be seen as a massive risk minimization device” (p. 16). They were correct in this assertion, but Trump administration officials used the episode to further their protectionist cause. As summed up by Evenett (2020):

Economic nationalists... exploited... shortages of medical supplies to argue that sourcing from abroad cannot be relied upon in extremis. In this view, greater self-

reliance is needed in the future and medical supply chains should be shortened or even repatriated entirely.... The debate over how to source medical kit has become the latest battleground over competing visions of the world economy (p. 50).

This was another area in which the Trump administration's trade policies led the United States (and the world) astray. If there were another pandemic during a second Trump administration, there is no doubt that the response would be equally misguided.

Planning for Trade Retribution

The idea of "retribution" has been an ongoing theme for Trump's political persona. It was a behavioral mode for his first presidency and an explicit plan for this hoped-for second presidency. In a 2023 speech, he stated: "I am your warrior. I am your justice, and for those who have been wronged and betrayed, I am your retribution." Further, Haberman (2024) reported that former Trump administration National Security Advisor John Bolton has warned that "Trump really cares only about retribution for himself, and it will consume much of a second term." All evidence suggests that this retribution will include the trade policy realm. In an August 2023 interview with Larry Kudlow (former Director of Trump's US National Economic Council), Trump proposed a baseline tariff of 10 percent on all imports. He also proposed matching any tariff increase by other countries with the same percentage increase, referring to this as "retribution." Kudlow corrected him, substituting the word "retaliation," but to Trump, the retribution theme is clearly important (*The Economist*, 2023).

Stein (2023) reported that the new baseline tariff "could represent a massive escalation of global economic chaos, surpassing the international trade discord that marked much of his first administration." Given that the average US tariff is approximately three percent, this assessment could well be accurate. Trump stated that this tariff would help pay off the US deficit but did not note that it is a tax increase (something he opposes in principle) that would be largely borne by US residents, both households and firms using imported intermediate products, raising the costs of production.

This trade vision has support in the blueprint for the second Trump administration developed by the Heritage Foundation and known as Project 2025 (<https://www.project2025.org/policy/>). Interestingly, trade is one area where there are two opposing chapters to this policy agenda. The first is written by Peter Navarro (again with no background in

trade) and is entitled “The Case for Fair Trade.” The second is written by Ken Lassman, a “free market” policy analyst (again with no background in trade). As emphasized by *The Economist* (2023), there is no question that the protectionist chapter of Project 2025 will prevail.

Navarro (2023) begins his advocacy of “fair trade” with a passage that very well sums up the current thinking of protectionist forces in the United States:

It is critical that the United States strengthen its manufacturing and defense industrial base at the same time that it increases the reliability and resilience of its globally dispersed supply chains. This will necessarily require the onshoring of a significant portion of production currently offshored by American multinational corporations (pp. 765-766).

The language here regarding manufacturing and defense comes straight out of the famous work by Friedrich List, *The National System of Political Economy* (1917, orig. 1885), which maintains an allure among modern economic nationalists (e.g., Lind, 2019). This line of thinking sees manufacturing as the locus of value added and as inherently tied to defense. It largely ignores the realities of modern GVCs, the actual locus of value added along them, the fact that value added is often found in services, and the importance of services in national defense (e.g., Reinert, 2023b). It substitutes a symbolic heuristic for empirical facts. Ironically, List called for *temporary* protection of manufacturing, currently known as infant industry protection, whereas members of the Trump administration want to increase protection of sector that have already been heavily protected for decades (e.g., steel and aluminum).

Navarro attributes persistent US trade deficits to the WTO’s MFN principle, which is economic nonsense. Again, as described above, the overall trade deficit is a macroeconomic variable largely unresponsive to trade policies. Navarro points out that the United States faces higher MNF tariffs than it imposes, calling this “unfair.” He neglects to mention that the United States can increase its *applied* tariffs to higher *bound* rates without being in violation of WTO rules. He fails to point out the extensive use of trade remedies on the part of the United States that increase tariffs over negotiated rates. He complains that the EU’s tariff on automobiles is 10 percent, while that of the United States is 2.5 percent, but he fails to mention the US 25 percent tariff on light trucks that has been in place since the mid-1960s. With light trucks accounting for most vehicle sales in the United States (approximately two thirds), the effective US rate on all

motor vehicles is *above* the EU rate. Nonetheless, this era of protection has not resulted in a globally competitive US automobile sector.

Navarro's proposal relates to what has become the 3-Rs of Trump tariff policy: reciprocal/retaliatory/retributory. Navarro uses the term "reciprocal" and endorses a United States Reciprocal Trade Act (USRTA), originally proposed by President Trump during his 2019 State of the Union Address. Navarro states:

Under the USRTA, the President would have the authority to bring any American trading partner that is currently applying higher nonreciprocal tariffs to the negotiating table. If that trading partner refused to lower tariffs to U.S. levels, the President then would have the authority to raise U.S. tariffs to match... the foreign partner's tariffs (p. 770).

In fact, reciprocity is a central feature of the WTO, enshrined in GATT Article XXVIII, which uses the phrase "reciprocal and mutually advantageous concessions." What Navarro is calling for, then, is not reciprocity but complete *harmonization* to US standards, a position the United States has taken to its advantage in other WTO realms (e.g., intellectual property).

These positions find support by former Trump USTR Robert Lighthizer, rumored in the financial press to be in line for a major position in a hoped-for second Trump administration. Lighthizer's (2024) stated goal is not just "fair trade" but "balanced trade." Lighthizer endorses Trump's 10 percent baseline tariffs but notes that higher tariffs might be required in some instances. He states that Trump's "stated objective with the broader tariff is to reduce America's trade deficit and to rejuvenate American manufacturing." As we have seen, the first experiment in tariff and trade wars under Lighthizer and Navarro coincided with an *expanded* trade deficit, including in services. But, no matter, Lighthizer wants to do it again in a bigger way. This is why, in reviewing Lighthizer's proposals stated by him elsewhere, *The Economist* (2023) stated: "Mr. Trump's hopes of shrinking the trade deficit would run headlong into the economic forces that actually determine the balance of exchanges between countries. In America's case the crucial factor is the country's low saving rate, which is almost certain to continue as a result of persistently high consumer spending and widening government deficits."

Like Navarro, Lighthizer claims that higher tariffs will boost manufacturing in the United States. In Lighthizer's view, tariffs and subsidies can guarantee manufacturing success. Missing in

his analysis is any consideration of the failed education system in the United States and the resulting shortages of critical engineering and science skills. In his view, the success of South Korea and Taiwan in manufacturing rests on “a mix of subsidies, domestic market restrictions, lax labor laws and numerous other policies aimed at giving their companies an edge in global markets.” Lighthizer ignores vast amounts of research on the role of decades of educational policy in the success of these two countries (e.g., Stiglitz, 1996 and McMahon 1998).

Lighthizer is also completely unaware of where value added (the thing that matters) is found along GVCs. He states that “making things matters.” However, in fact, value added is often less in assembly but rather at the very beginning and end of GVCs, in R&D, design, and even sales and after-sales service. He ignores a great amount of empirical business research on this matter, including the well-known studies of Ali-Yrkkö et al. (2011) in the case of the Nokia N95 smartphone and Dedrick, Kraemer and Linden (2010) in the case of the Apple iPod. Lighthizer also ignores the fact that other countries will *retaliate* in response to increased tariffs in the United States. This outcome is universally recognized by trade economists and the financial press and was shown to be the case in the first Trump administration, but it is nonetheless downplayed by Trump’s trade policy team. As noted by *The Economist* (2023), “If Mr. Trump has his way, other countries will probably respond by slapping their own tariffs on America. The spread of universal tariffs would be akin to a giant tax on cross-border transactions, making international commerce less attractive.”

Recipe for a Trade Disaster

The willful ignorance of Trump, Navarro and Lighthizer of basic economic principles and empirical regularities is breathtaking. But there is *more*. The hoped-for future Trump administration has an active proposal to impose a 60 percent tariff on all Chinese imports. This would be a massive violation of the WTO MFN principle. China would take this action to the WTO, and the resulting WTO panel would surely find against the United States. The hoped-for second Trump administration would then appeal to the Appellate Body it destroyed in its first term, and the WTO would be completely undermined. This outcome is accurately described by Olson (2024): “The proposed 60% tariff on all Chinese imports, to say nothing of the 10% universal tariff, would stretch the spirit, if not the letter, of WTO rules beyond the breaking point and

constitute a massive frontal assault on the organization that would likely leave the already teetering body on life support.”

Others associated with the Trump administration want to fully revoke China’s MFN status altogether and permanently. Olson (2024) states that, with this action, “the vision of a single, rules-based trade system based on MFN status for all members would be effectively extinguished.” This would not just affect US-China trade relations but rather the trade relations of the United States with *all other countries*. It would be the end of the WTO. This eventuality, however, seems to be the objective. Trump and his wrecking-ball crew loath all things multilateral. An administration that withdrew from the WHO in the middle of the pandemic would not balk at destroying the institutional foundations of the world trading system.

The irony here is that the WTO, and its predecessor the GATT, were largely built by and for the United States. The WTO agreement on trade in services was explicitly written to support the US-based Coalition of Service Industries, which lobbied strenuously for its inclusion. The WTO agreement on intellectual property was also explicitly written to support US economic interests, and the WTO’s DSU was drawn up and included at the insistence of the United States to enforce its gains in services and intellectual property. What the hoped-for, second Trump administration is planning is to undo these US gains, provoke opponents and allies alike, and to enforce its misconstrued zero-sum mindset on the whole world. The global economy and, notably, the US economy will be much poorer as a result.

More generally, in both his first and hoped-for second term, a Trump administration poses a threat to the rules-based, liberal model of international economic relations (e.g., Ruggie). In the trade realm, for example, the WTO has provided significant benefits to its members. As described by Koopman et al. (2020), this institution generally help to promote cooperation over conflict. More specifically, it provides “more transparent and informed economic transactions, more secure and predictable economic relations, more cooperative or ‘win-win’ economic outcomes, and... more open exchanges of ideas, information and knowledge” (p. 830). These are practical but essential components of relatively open commercial relations that are prerequisites for a global market system. Ironically, the United States was the global player more heavily involved in promoting this liberal regime (e.g., Ikenberry, 1992). A second Trump administration would attempt to complete the destruction of this system in the name of a misguided economic

nationalism (e.g., Reinert, 2023a). For this and a host of other reasons explored in this volume, Trump must be defeated at the polls in the 2024 election.

References

Ali-Yrkkö, J., P. Rouvinen, T. Seppälä and P. Ylä-Anttila (2011) “Who Captures Value in Global Supply Chains? Case Nokia N95 Smartphone,” *Journal of Industry, Competition and Trade*, 11:3, 263-278.

Amiti, M., S.J. Redding and D.E. Weinstein (2019) “The Impact of the 2018 Tariffs on Prices and Welfare,” *Journal of Economic Perspectives*, 33:4, 187-210.

Baldwin, R.E. and S.J. Evenett (2020) “Introduction,” in R.E. Baldwin and S.J. Evenett (eds.), *COVID-19 and Trade Policy: Why Turning Inward Won't Work*, Center for Economic Policy Research, 1-19.

Bown, C.P. (2020) “COVID-19: Demand Spikes, Export Restrictions, and Quality Concerns Imperil Poor Country Access to Medical Supplies,” in R.E. Baldwin and S.J. Evenett (eds.), *COVID-19 and Trade Policy: Why Turning Inward Won't Work*, Center for Economic Policy Research, 31-47.

Bown, C.P. (2021) “US-China Phase One Tracker: China's Purchases of US Goods,” Peterson Institute for International Economics.

Bown, C.P. (2022) “China Bought None of the Extra \$200 Billion of US Exports in Trump's Trade Deal,” Peterson Institute for International Economics.

Bown, C.P. and D.A. Irwin (2019) “Trump's Assault on the Global Trading System: And Why Decoupling from China Will Change Everything,” *Foreign Affairs*, 98:5, 125-137.

Bown, C.P. and Keynes, S. (2020) “Why Trump Shot the Sheriffs: The End of WTO Dispute Settlement 1.0,” *Journal of Policy Modeling*, 42:4, 799-819.

Dedrick, J., K.L. Kraemer and G. Linden (2010) “Who Profits from Innovation in Global Value Chains: A Study of the iPod and Notebook PCs,” *Industrial and Corporate Change*, 19:1, 81-116.

The Economist (2017) “Free-Trader Turned Game-Changer,” January 21.

The Economist (2023) “Donald Trump's Second Term Would Be a Protectionist Nightmare,” October 31.

Espitia, A., N. Rocha and M. Ruta (2020) “Trade in Critical COVID-19 Products,” World Bank.

Evenett, S. (2020) “Flawed Prescription: Export Curbs on Medical Goods Won't Tackle Shortages,” in R.E. Baldwin and S.J. Evenett (eds.), *COVID-19 and Trade Policy: Why Turning Inward Won't Work*, Center for Economic Policy Research, 49-61.

Executive Office of the President (2017) “Omnibus Report on Significant Trade Deficits,” Executive Order 13786. <https://www.federalregister.gov/documents/2017/04/05/2017-06968/omnibus-report-on-significant-trade-deficits>

Fisher, M. (2020) “From Ebola to Coronavirus, Trump Always Sees Disease as a Foreign Threat,” *Washington Post*, March 20.

Gereffi, G., P. Pananond and T. Pedersen (2022) “Resilience Decoded: The Role of Firms, Global Value Chains, and the State in COVID-19 Medical Supplies,” *California Management Review*, 64:2, 46-70.

Goodman, P.S., K. Thomas, S.-L. Wee and J. Gettleman (2020) “A New Front Line for Nationalism: The Global Battle Against a Virus,” *New York Times*, April 10.

Haberman, M. (2024) “The Retribution Presidency,” *New York Times*, February 5.

Ikenberry, G.J. (1992) “A World Economy Restored: Expert Consensus and the Anglo-American Postwar Settlement,” *International Organization*, 46:1, 289-321.

Irwin, D. (2020) *Free Trade Under Fire*, Princeton University Press.

Jackson, J.H. (2000) *The Jurisprudence of GATT and the WTO: Insights on Treaty Law and Economic Relations*, Cambridge: Cambridge University Press.

Kahl, C. and T. Wright (2021) *Aftershocks: Pandemic Politics and the End of the Old International Order*, St. Martins.

Koopman, R., J. Hancock, R. Piermartini and E. Bekkers (2020) “The Value of the WTO,” *Journal of Policy Modeling*, 42:4, 829-849.

Lee, Y.S. (2019) “Three Wrongs Do Not Make a Right: The Conundrum of the US Steel and Aluminum Tariffs,” *World Trade Review*, 18:3, 481-501.

Lighthizer, R. (2020) “The Era of Offshoring US Jobs Is Over,” *New York Times*, May 11.

Lighthizer, R. (2024) “Donald Trump’s Former Trade Chief Makes the Case for More Tariffs,” *The Economist*, March 8.

Lind, M. (2019) “The Return of Geoeconomics,” *The National Interest*, October 13.

List, F. (1917, orig. 1885) *The National System of Political Economy*, Pantianos Classics.

McMahon, W.W. (1998) “Education and Growth in East Asia,” *Economics of Education Review*, 17:2, 159-172.

Navarro (2023) “The Case for Fair Trade,” in *Mandate for Leadership: The Conservative Promise*, The Heritage Foundation.

Navarro, P. and G. Autry (2011) *Death by China*, Prentice Hall.

Olson, S. (2024) “Trump’s China Tariff Plan Would Be the Death of the WTO,” *Nikkei Asia*, March 21.

<https://asia.nikkei.com/Opinion/Trump-s-China-tariff-plan-would-be-the-death-of-the-WTO>

Pfiffner, J. (2021) “Donald Trump and the Norms of the Presidency,” *Presidential Studies Quarterly*, 51:1, 96-124.

Politi, J. (2020) “US Trade Advisor Seeks to Replace Chinese Drug Supplies,” *Financial Times*, February 12.

Reinert, K.A. (2021) *An Introduction to International Economics: New Perspectives on the World Economy*, Cambridge University Press.

Reinert, K.A. (2023a) *The Lure of Economic Nationalism: Beyond Zero Sum*, Anthem Press.

Reinert, K.A. (2023b) “Time To End America’s Obsession with Manufacturing,” *The Hill*, August 2.

Reinert, K.A. (forthcoming) “Steel, Security and the WTO Dispute Settlement Mechanism: A Trade Catastrophe in the Making,” *The World Economy*.

Reuters (2018) “Trump Tweets: Trade Wars Are Good and Easy to Win,” March 2.

Reuters (2019) “Who Pays Trump’s Tariffs? China or US Customers and Companies?” May 21.

Ruggie, J.G. (1992) “Multilateralism: The Anatomy of an Institution,” *International Organization*, 46:3, 561-598.

Solender, A. (2020) “Federal Watchdog Finds Trump Advisor Peter Navarro Repeatedly Violated Hatch Act,” *Forbes*, December 7.

Stein, J. (2023) “Trump Vows Massive New Tariffs If Elected, Risking Global Economic War,” *Washington Post*, August 22.

Stellinger, A., I. Berglund and H. Isakson (2020) “How Trade Can Fight the Pandemic and Contribute to Global Health,” in R.E. Baldwin and S.J. Evenett (eds.), *COVID-19 and Trade Policy: Why Turning Inward Won’t Work*, Center for Economic Policy Research, 21-30.

Stiglitz, J.E. (1996) “Some Lessons from the East Asian Miracle,” *World Bank Research Observer*, 11:2, 151-177.

Thrush, G. (2020) “‘It Affects Virtually Nobody’, Trump Says.” *New York Times*, September 22.

United States Department of Commerce (2018) *The Effect of Imports of Steel on the National Security*.

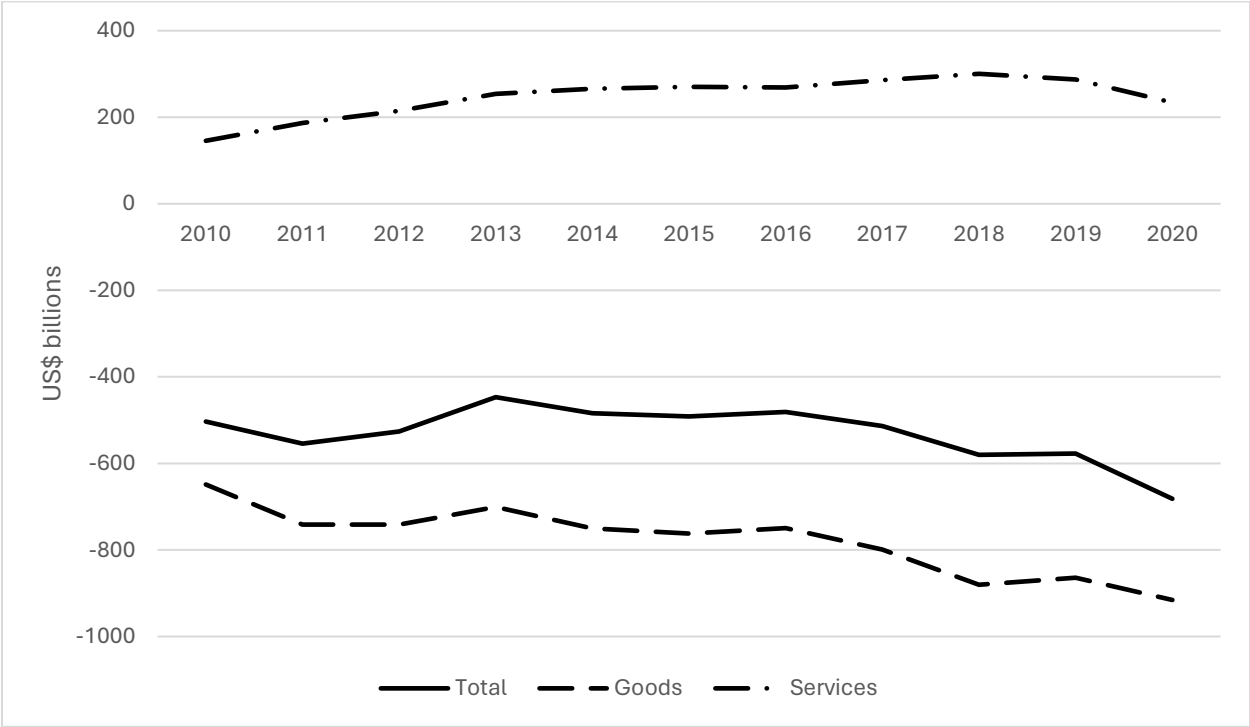
Vazquez, M., C. Hickey and P. Krishnakumar (2020) “Donald Trump’s Presidency by the Numbers,” *CNN*, December 18.

Version: June 6, 2024

Woolhandler, S. et al. (2021) “Public Policy and Health in the Trump Era,” *Lancet*, 397:10275, P705-P753.

World Trade Organization (2022) “United States–Certain Measures on Steel and Aluminum Products: Report of the Panel,” WT/DS552/R, December 9.

Figure 1: United States Trade Balance, 2010 to 2020



Source: <https://www.census.gov>.