

Schropp, Simon A. B.

## Article

# Letter from America: Biden's International Trade Policy: Déjà Vu, Again

Intereconomics

*Suggested Citation:* Schropp, Simon A. B. (2024) : Letter from America: Biden's International Trade Policy: Déjà Vu, Again, Intereconomics, ISSN 1613-964X, Sciendo, Warsaw, Vol. 59, Iss. 3, pp. 183-184,  
<https://doi.org/10.2478/ie-2024-0036>

This Version is available at:

<https://hdl.handle.net/10419/301415>

### Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

### Terms of use:

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



<https://creativecommons.org/licenses/by/4.0/>

# Biden's International Trade Policy: Déjà Vu, Again

After four years of President Trump's slash-and-burn trade policies, the bar for the incoming Biden Administration could hardly have been lower. Trump's "America First" bravado was an ungainly amalgam of tax hikes (against foes and friends alike), bilateral power plays and a retreat from international trade cooperation (Trump spurned the Trans-Pacific Partnership, TPP, and crippled the World Trade Organization, WTO). Trump's trade policies ruffled the feathers of many of America's closest trade partners. They were also economically ineffective, failing to benefit even those sectors and locations that his tariffs were supposed to protect. Notably, the Trump's tariffs did not change China's behavior one bit.

It came as no small surprise when Joe Biden, despite calling Trump's trade actions "disastrous" and "reckless", not only failed to repudiate those policies, but actually amplified them. While Biden's version of economic nationalism is more carrots than sticks (commentators have called it "polite protectionism"), it is no less fervent. In a barely noticed but tremendously consequential speech in July 2023, National Security Advisor Jake Sullivan laid out the most coherent version of the Biden Administration's economic ideology. Sullivan blamed hyperglobalization, trade liberalization, unfettered deregulation and naïve beliefs in market efficiency for the most pressing challenges currently facing the United States – a hollowed-out industrial manufacturing base, dramatic economic inequality, the rise of China and the climate crisis. Drawing a sharp contrast to the "Washington consensus" – the 1990s-era policy package championed by the U.S. Treasury, the IMF and the World Bank that, to many, is synonymous with deregulation and free trade – Sullivan declared that the Administration stood for a "new Washington consensus". This novel paradigm is aimed at achieving supply chain resilience, more equitable growth for American workers, rapid decarbonization, and a containment of China's military and economic might.

While few Americans would disagree that these are worthy goals, their *implementation* as proposed by Sullivan – a "modern" industrial policy, selective partnerships with economic allies and policies aimed at curbing the ascent of China – warrants scrutiny. Let us start with Biden's industrial policy. The strategy consists of a mix of muscular government interventions through direct subsidies and tax credits, e.g. under the Inflation Reduction Act, directed at industries deemed especially critical or strategic, mainly semiconductors and green technologies; "Buy America" provisions for government procurement; and protectionist policies, including a continuation of many of the Trump-era tariffs, domestic content requirements, and trade defense measures. As a case in point, in mid-May of this year the Administration slapped major new tariffs on Chinese electric vehicles, advanced batteries, solar cells, steel, aluminum and medical equipment.

While industrial policy, done right, can be useful, all indications are that Biden's version is poised to cause significant domestic and international damage. Let us focus on the international repercussions of Biden's trade policy. First, many implementing actions are in apparent violation of the very trade principles that the United States once held dear. Second, since industrial policy is essentially self-dealing designed to draw investment, production and raw materials away from other countries, this zero-sum logic will almost definitely provoke an international backlash. Powerful countries will retaliate and/or emulate. Emulating discriminatory U.S. industrial policies can easily trigger lose-lose subsidy wars that, in addition to the monetary costs, tend to stifle innovation and

© The Author(s) 2024. Open Access: This article is distributed under the terms of the Creative Commons Attribution 4.0 International License (<https://creativecommons.org/licenses/by/4.0/>).

Open Access funding provided by ZBW – Leibniz Information Centre for Economics.

\* All opinions expressed in this contribution are the author's and does not reflect the view of his employer or its clients.

**Simon Schropp**, Sidley Austin LLP, Washington, DC; and The George Washington University, Washington, DC, USA.\*

technological diffusion, a particular concern for the desired green energy transition. Poorer countries that cannot afford costly subsidy programs will see export markets and inward investment shrink, and with them, developmental progress. This breeds resentment of the United States and over the short or long haul will draw them towards other trade alliances.

As for Biden's strategy for cooperating with trade partners, it entails neither aspirations to pursue traditional trade agreements (such as rejoining the TPP), nor a revitalization of the multilateral trading order (for example, Biden has continued Trump's assertion of national security exceptions to justify trade restrictions). Instead, the Administration has championed sectoral partnerships and so-called "frameworks" (such as the Indo-Pacific Economic Framework for Prosperity, IPEF). Common to these ventures is Biden's unwillingness to offer foreign countries additional access to the U.S. market. Rather, the Administration seeks to extract non-binding commitments on environmental or labor standards or to sign off on mutual recognition of existing procedures or standards. How such "trade" deals are supposed to benefit U.S. workers, make supply chains more resilient, or result in decarbonization is anyone's guess.

Finally, the Biden team argues that China pursues aggressive economic policies and has flouted international trade rules; it also considers slowing down China's economic and military ascent as a core objective. It is then all the more puzzling that the Administration continues to weaken, rather than strengthen, important alliances that it would need to pursue its objective effectively and with as little economic blowback to the U.S. economy as possible.

At its core, the "new Washington consensus" of the Biden Administration is a challenge of five decades of economic orthodoxy and a rejection of the rules-based international economic order. It espouses a zero-sum logic where cooperation is ad hoc and transactional. Given that stance, what is the incentive for third countries to cooperate with the United States?

Granted, international trade currently has a bad reputation with U.S. audiences stretching from the nationalist right to the progressive left. Yet, instead of the pendulum swinging towards neo-protectionism, future administrations may consider improving on the existing rules-based order – call it Washington consensus 2.0. What could such an updated WC2.0 look like? Domestically, it would capture the gains of liberalized trade, while offering protection from the downsides of globalization. The focus thereby would be on workers, not jobs – by promoting job creation in distressed areas and improving transition assistance for those having lost their jobs to international competition and technological advances. Next, WC2.0 would foster (WTO-compliant!) investment in infrastructure, R&D, education and talent attraction, rather than betting on hand-picked industries. It would focus on technology *adoption*, not technology *production*: adoption and diffusion of the best available technologies (even if imported) are more likely to create long-lasting economic benefits and larger innovative breakthroughs than a government trying to pick winning technologies.

Internationally, WC2.0 would have the United States pursue more and deeper trade agreements with large memberships, such as TPP, since it is better to coordinate, not compete, with allies on public investments in high tech or decarbonization. Such trade agreements would pursue the adoption of common technical standards on a global scale. They would also provide a veritable counterbalance to China's economic and political heft. Finally, under WC2.0 the United States would immediately revive WTO dispute settlement and reengage in (an admittedly overdue) WTO reform that squarely takes on rule-flaunting by friend and foe alike.

International trade is not going anywhere. The question is how and to what degree the United States will participate. WC2.0 could help capture the gains of liberalized trade and make up for domestic losses. It could remind Americans that trade rewards innovation and efficiency, that it makes the distributable pie larger for all, and that it advances U.S. security and economic interests.