



February 24, 2021

WHAT YOU NEED TO KNOW ABOUT **Biden's Tariff Dilemma**

PRO POINTS

- **President Joe Biden's administration is reviewing a series of tariffs and other trade actions taken by the Trump administration toward U.S. allies and adversaries alike.**
- **While in office, then-President Donald Trump imposed tariffs on \$370 billion worth of goods from China, both consumer goods and industrial products like steel and aluminum.**
- **He also struck a trade deal with China that included massive purchase guarantees for American agricultural goods, but China missed the targets by about 40 percent in its first year.**
- **Trump also left in place duties on more than \$20 billion worth of steel and aluminum from most of the countries in the world, while granting exemptions to key U.S. allies like Canada, Mexico and South Korea, as well as a host of individual companies.**
- **The former administration also took aggressive action on certain select products, including slapping tariffs on \$8.5 billion worth of solar panels and \$1.3 billion worth of washing machines.**
- **Trump ramped up the long-running dispute with the European Union over government subsidies for Boeing and Airbus, imposing duties on at least \$7.5 billion in EU goods and receiving tariffs on \$4 billion in retaliation.**

HOW WE GOT HERE

Trump was elected in part because of middle-class anxiety with a free trade agenda advanced by both parties since the 1990s.

Trump soon moved to support the domestic steel and aluminum industries, arguing that he was doing so for national security reasons. In March 2018, he imposed 25 percent tariffs on steel and 10 percent on aluminum, with exemptions for only a few key export nations. The EU and China responded with retaliatory tariffs of their own, while other U.S. allies pushed for exemptions throughout Trump's term.

Trump also targeted China individually in 2018, breaking World Trade Organization rules to impose 25 percent tariffs on \$50 billion worth of Chinese goods from medicines to industrial materials and chemicals. The move set off a tit-for-tat tariff war with the Chinese that would eventually see U.S. tariffs expand to cover about \$370 billion worth of Chinese goods. The WTO subsequently said Trump's actions were illegal.

Trump's team tried to use those tariffs as leverage to strike a deal with China. In 2019, the U.S. and China agreed to what the sides called a "Phase One" deal that largely committed China to purchasing American agricultural goods. But that deal did not address many of the structural issues the U.S. has long had with China, and most of the tariffs still remain in place today.

Trump's team also stepped up conflict in the 16-year dispute over airplane subsidies between the U.S. and EU, imposing tariffs on \$7.5 billion worth of European products with the WTO's blessing in 2019. Europe responded with its own duties, also sanctioned by the WTO, and in a parting shot last December, Trump expanded U.S. tariffs on a litany of other European products.

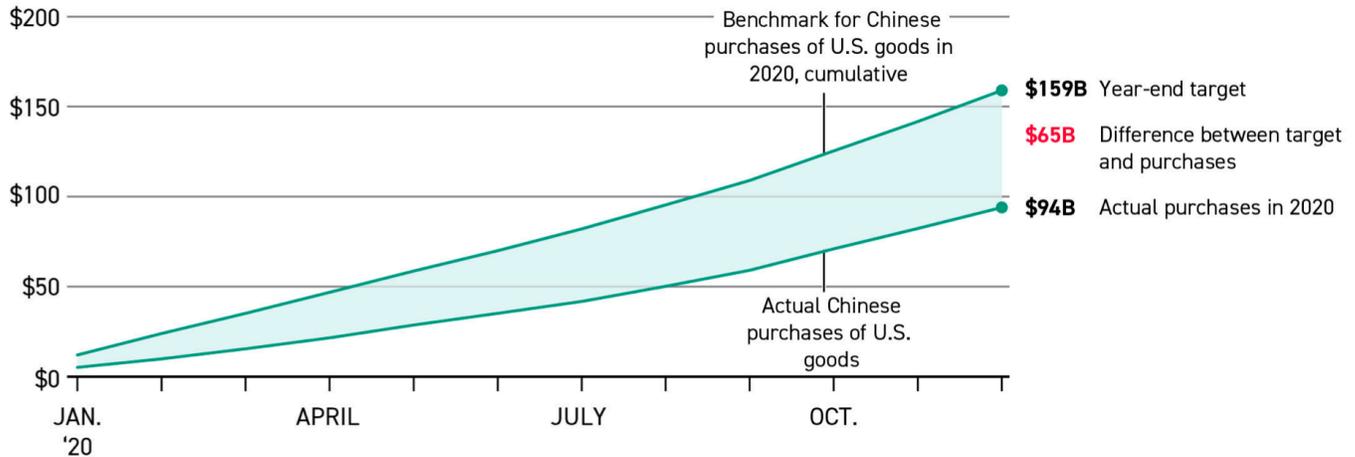
Alongside those actions, Trump also moved to support particular domestic industries, imposing tariffs on \$8.5 billion worth of solar panel imports and \$1.3 billion worth of washing machines in 2018 through a seldom-used "global safeguard" mechanism in U.S. trade law. China responded there as well, with duties on U.S. sorghum.

The former president scored a win when he signed an updated NAFTA deal with Mexico and Canada in 2020, and soon removed the national security tariffs on steel and aluminum on those countries.



China's purchases lag benchmarks set under phase 1 deal

U.S. EXPORTS TO CHINA, BILLIONS OF DOLLARS



Source: Peterson Institute for International Economics, Chad P. Bown, "US-China phase one tracker: China's purchases of US goods"

WHAT'S NEXT

Biden has been clear that no swift action is coming on the tariffs that Trump imposed. But the president's team members placed nearly every aspect of trade policy under a review, saying they will wait until those are done and the cabinet is in place to alter tariffs or trade restrictions.

Biden also put a high value on multilateral action, saying he wants U.S. allies to unite on trade policy to confront China's practices, like its subsidization and overproduction of steel.

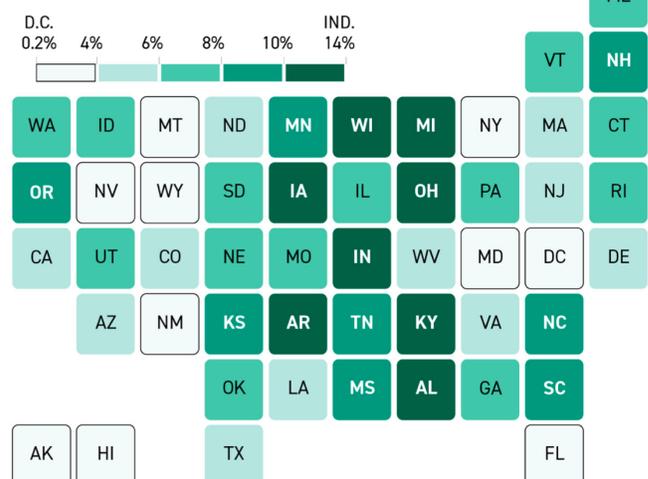
Biden immediately signed an order to strengthen "Buy American" provisions that force the government to contract with domestic sources. The Canadians and Europeans oppose those moves, as their firms serve some U.S. government contracts as well.

And Biden also reimposed aluminum tariffs on the UAE that Trump lifted just before leaving office. Trump's decision was not based on trading concerns, the Biden team said, and instead was connected to the UAE's decision to recognize Israel and its deal to buy high tech fighters and drones from U.S. company Lockheed, which is also under review.

Biden's pick for U.S. trade representative, Katherine Tai, and national security adviser Jake Sullivan have said they want to shape a "worker-centered" trade policy that prioritizes building on the labor and environmental provisions of the updated NAFTA deal. But they have been quiet on how they will handle Trump's major tariffs, like the steel and aluminum duties supported by unions in critical midwestern swing states like Pennsylvania.

Midwest states among top for manufacturing

MANUFACTURING EMPLOYMENT AS A PERCENTAGE OF ALL EMPLOYMENT, 2019



Source: Bureau of Economic Analysis, total full-time and part-time employment by NAICS industry



Another big open question is how Biden will confront China. During confirmation hearings, his pick for Commerce secretary, Gina Raimondo, was called out for initially not committing to keep Chinese telecom firm Huawei on her agency's business blacklist. She later recanted, saying it and other firms would remain, but the swift criticism from Republicans shows how any Biden policy toward Beijing will fall under intense scrutiny.

Chinese leaders, meanwhile, are rushing to take advantage of the policy pause between the administrations. Between the election and inauguration, China finalized a 15-nation trade deal in the Pacific and a landmark investment deal with the European Union, despite White House objections. Beijing continues to ingratiate itself with American allies and industry alike, putting the impetus on Biden's team to respond in the coming months.

POWER PLAYERS

- **Commerce Secretary nominee Gina Raimondo:** Raimondo's agency will be responsible for reviewing Trump's tariffs and trade restrictions on Chinese companies. Her refusal to commit to keeping Huawei and other Chinese firms on the agency blacklist earned her backlash from China hawks in the Senate.
- **Chinese President Xi Jinping:** China's authoritarian leader has been using the transition between administrations to try to pull U.S. allies closer to Beijing's orbit. How he responds to a less blustery, more multilateral U.S. trade policy under Biden will set the course for great power competition in the years to come.
- **European Commission President Ursula von der Leyen:** The leader of Europe's multinational parliament will have to balance the U.S. desire for cooperation with the interests of her own member nations, some of whom have cozied up to Beijing in recent years. And she will have to convince Biden that lifting tariffs on steel, aluminum and consumer goods from Europe will be worth any domestic political blowback.
- **USTR nominee Katherine Tai:** Once in place as U.S. trade chief, Tai is expected to take her experience heading China enforcement for USTR to help the White House take a hard line against Beijing. But whether she can do that without alienating U.S. firms doing business there remains an open question, as do the details of her "worker-centered" trade policy.
- **National security adviser Jake Sullivan:** Sullivan has taken an early leadership role in shaping trade policy and confronting China, but he and Tai will face a number of tough decisions on whether to lift tariffs and trade restrictions on China, the EU and others that U.S. companies oppose.