ANALYSIS

Trump Has the Whole Global Trade System in His Sights

The U.S. president's ambitions for "reciprocity" aren't limited to China.

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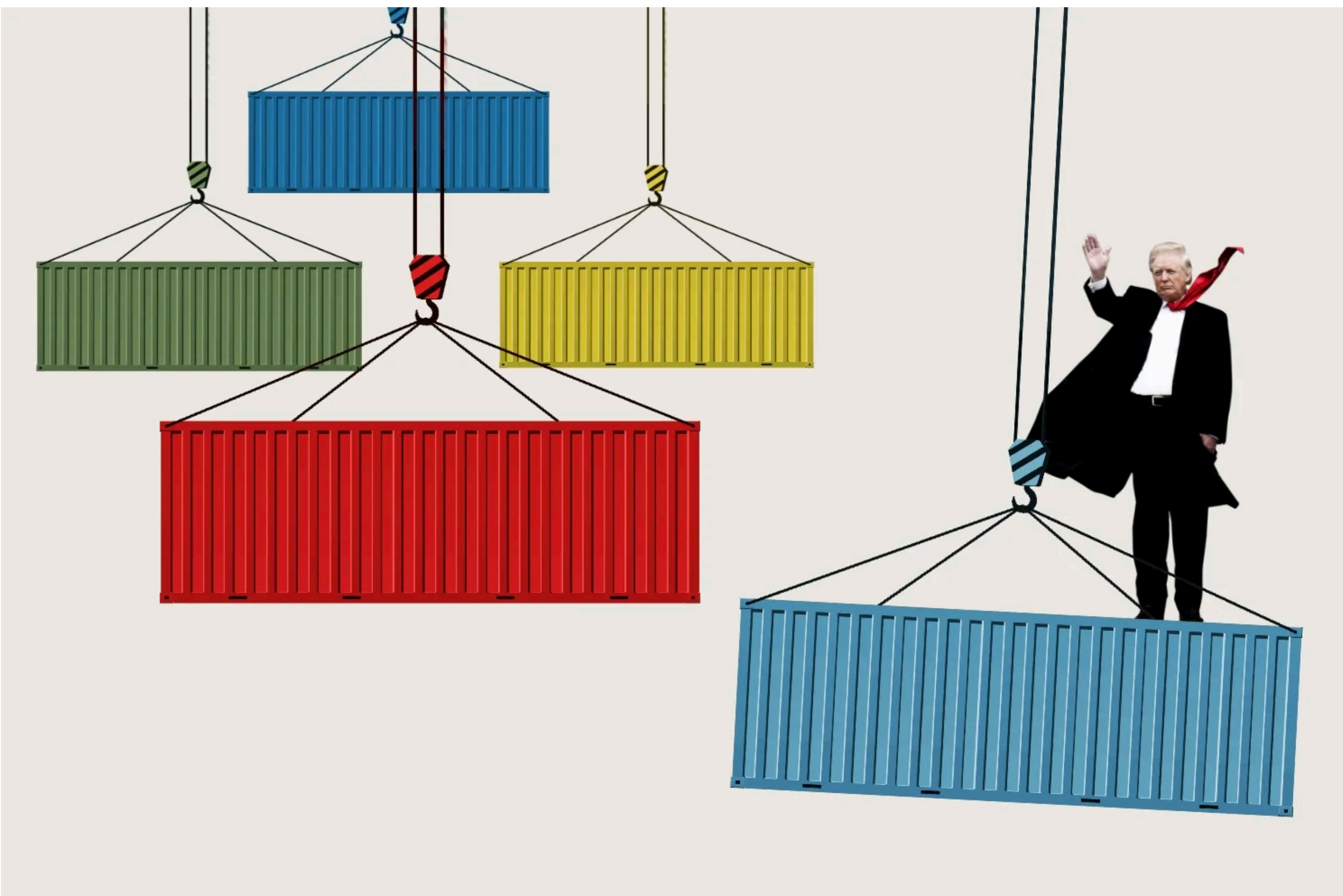
By **Bob Davis**, a reporter who covered U.S.-China economic relations for decades for the *Wall Street Journal*.



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U.S. President Donald Trump's second-term trade war officially began on Tuesday with fresh tariffs on China and retaliation from Beijing, but that's only a small sample of what lies ahead.

Trump's Second Term

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In his first term, the self-declared "tariff man" levied tariffs on a scale unseen since the 1930s, though he had fairly narrow goals: protect some favored industries like steel; focus on China, the U.S.'s biggest rival; and pressure allies to line up with U.S. political goals. His first sallies this time followed part of that playbook when he threatened tariffs against Canada, Mexico, and China over what he said were their lax policies on immigration and drug traffic.

But he has a bigger goal in mind for his second term with plans he is still cooking up. Trump seeks to remake global trade based on what he calls "reciprocity"—treating other countries, supposedly, in the same fashion as they treat the United States. China is not the target this time—or at least not the only one. He has his sights set on any country with which the U.S. has a large, persistent trade deficit, which in his mind means it is treating the U.S. "terribly." Success would mean sharply reducing the trade deficit, no matter which country he hits or what other geopolitical goals it impedes.

Former President Joe Biden, for instance, talked about defending Taiwan against China, a traditional aim of Republican China hawks such as new Secretary of State Marco Rubio. Trump, in contrast, is threatening to wreck Taiwan's economy with up to 100 percent tariffs on its semiconductors and also require it to pay the U.S. for defense. Although Trump has packed his administration with China hawks, he has long sought accommodation with Chinese President Xi Jinping on trade and other issues.

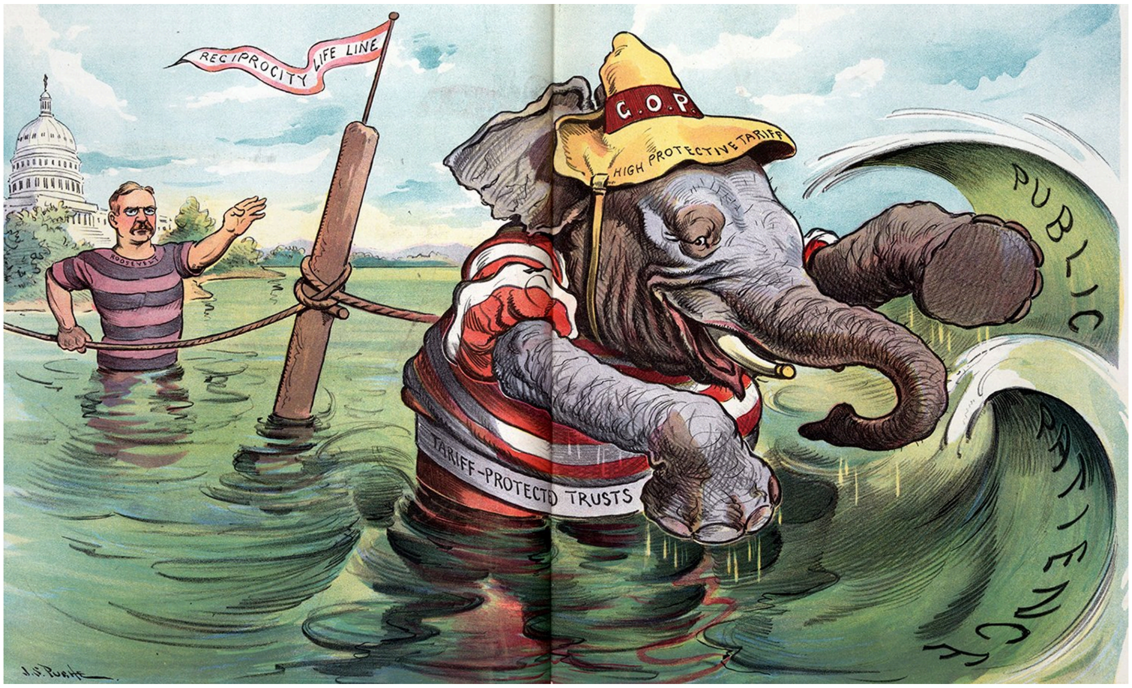
"Trump at this point is absolutely not focused on China, both in terms of what's been seen in public and what's happening behind the scenes," said Derek Scissors, a China expert at the American Enterprise Institute who has long focused on Trump's trade plans.

Since the 1990s, exporting to the U.S. has been like driving on an open road. In Trump's plan, that road will become a toll bridge, with a 10 percent or 20 percent passage fee—his planned "universal tariff"—unless he decides to waive it, whether for countries or individual companies. "If you don't make your product in America, which is your prerogative, then, very simply, you will have to pay a tariff," he told global corporate leaders gathered in Davos, Switzerland, last month via videoconference.

Underlying Trump's plans is the seemingly simple concept of reciprocity. Major U.S. trading partners have tariff levels higher than the United States does, so the U.S. should hike its tariffs to those heights or beyond for trade to be fair. "Eye for an eye," Trump said in a 2023 campaign video explaining his plan to pass what he called the "Trump Reciprocal Trade Act."

A White House official said the president and his trade team haven't finalized their plans and are still exploring options. "Reciprocity is a big focus of the president," the official said. "There's also question about general restrictions, and he has talked about reviving manufacturing and industry."

Reciprocity as a trade concept dates back at least to Thomas Jefferson, said Dartmouth College economic historian Douglas Irwin. "Where a Nation imposes high Duties on our productions, or prohibits them altogether, it may be proper for us to do the same by theirs," the then-secretary of state wrote in 1793.



A 1903 illustration shows U.S. President Theodore Roosevelt warning about protective tariffs going too far with a flag marking the "Reciprocity Life Line." UNIVERSAL HISTORY ARCHIVE/UIG VIA GETTY IMAGES

President Franklin D. Roosevelt used the concept differently in the 1930s as he sought to wean the world off the protectionism engendered by the Smoot-Hawley tariff wars. He negotiated a series of reciprocal trade agreements where the United States and a trading partner agreed to lower tariffs for some goods, and then the U.S. applied those reduced tariffs to other countries with which it had a reciprocal deal.

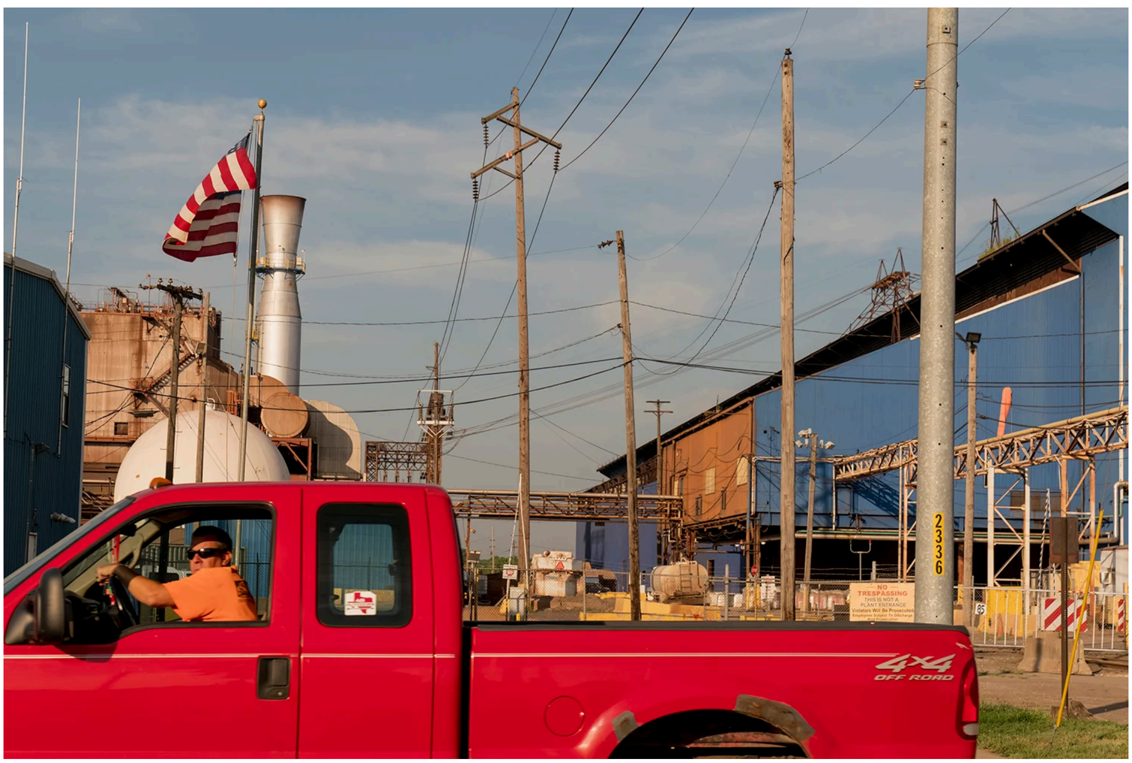
After World War II, individual deals gave way to multilateral rounds of tariff reductions, with the U.S. taking the lead. Again, reciprocity was the guiding principle—the United States would only cut tariffs if other countries did, too. But the tariff reductions weren't equal. Looking to lead the way and woo allies during the Cold War, the U.S. cut tariffs more deeply.

It was a good deal. Consumers benefited from cheaper and more varied goods, and domestic producers were forced to up their game to outcompete foreign firms. Trade expansion has boosted U.S. GDP by $2.6 trillion since 1950, according to the free-trade Peterson Institute for International Economics.

But the downsides of liberalized trade became clear over the years, too, as foreign competition from first Japan and then China hollowed out U.S. factory towns in the Midwest and Southeast, such as Olney, Ill., and Hickory, N.C. It was one thing to push for minimal tariffs when China was poor and struggling and quite another as it grew to be the world’s largest exporter.

Chinese average tariffs of as high as 10 percent compared to U.S. tariffs of 3.4 percent seemed grossly unfair, let alone Indian average tariffs as much as 50.8 percent or Indonesia’s 37.1 percent. Those countries also use regulations and subsidies far more than the U.S. to protect domestic industries.

“U.S. exporters face formal barriers nearly three times higher than those the United States imposes on importers, and nontariff barriers imposed on U.S. exporters are 36 percent higher than those faced by importers to the United States,” Trump’s Council of Economic Advisers wrote in 2018.



A truck passes the U.S. Steel plant in Granite City, Ill., on July 1, 2022. WHITNEY CURTIS FOR THE WASHINGTON POST VIA GETTY IMAGES

Now Trump wants to flip FDR’s concept of reciprocity on its head and lead the world back to an era of protectionism. He wants to boost U.S. tariffs at least to the level of U.S. trading partners. Realizing the difficulty of negotiating individual deals, he’s promised a 10 percent or 20 percent across-the-board universal tariff to start.

Forget Thomas Friedman's *The World Is Flat*; Trump's world is rutted and strewn with boulders and sinkholes. "Let's just say this: We're going to make great deals, and we have all the cards," Trump said at a Mar-a-Lago press conference in December.

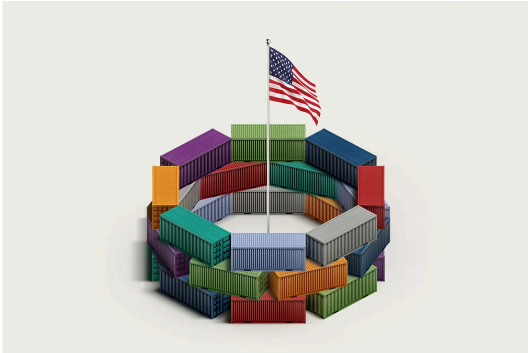
Trump says the deals would restore fairness to the trading system, protect U.S. jobs, and force companies to reshore operations to the United States. But the effort has huge downsides, including trade wars with allies and higher prices via tariffs and retaliation. It also takes the focus off China, because so many other countries are in Trump's crosshairs that it's tough to focus on any one country.

When Trump threatened tariffs this past weekend over immigration and drugs, he proposed a 25 percent levy on Mexico and Canada, though he delayed them for a month after talking to the leaders of both countries and claiming they had made concessions. Especially striking was his willingness essentially to tear up the U.S.-Mexico-Canada Agreement, a free trade pact he negotiated his first term.

He carried out his threat of 10 percent tariffs against China and said the levies could go higher, prompting Beijing to retaliate with tariffs and other measures. But he plans to talk to Xi in a few days, where the two might work out a deal, too.

"The U.S. can't handle China on its own," said former U.S. Trade Representative Charlene Barshefsky, who negotiated the U.S. World Trade Organization (WTO) deal with China. "It needs allies and partners who view China in the same way as the U.S. For the U.S. to reinforce those relationships, the last thing you want to do is pick fights with our friends. It's counterproductive."

Peter Navarro, Trump's White House senior trade advisor, has provided the clearest roadmap of Trump's reciprocal approach in an essay in Project 2025, the 887-page compilation of recommendations for Trump 2.0. Navarro ranks trade targets according to the size of their bilateral trade deficit with the United States and the difference in average tariff levels.



ANALYSIS

How Washington Learned to Embrace Protectionism

Biden's embrace of Trump-era tariffs is part of a broader change in U.S. thinking on trade—and toward China.

By Bob Davis

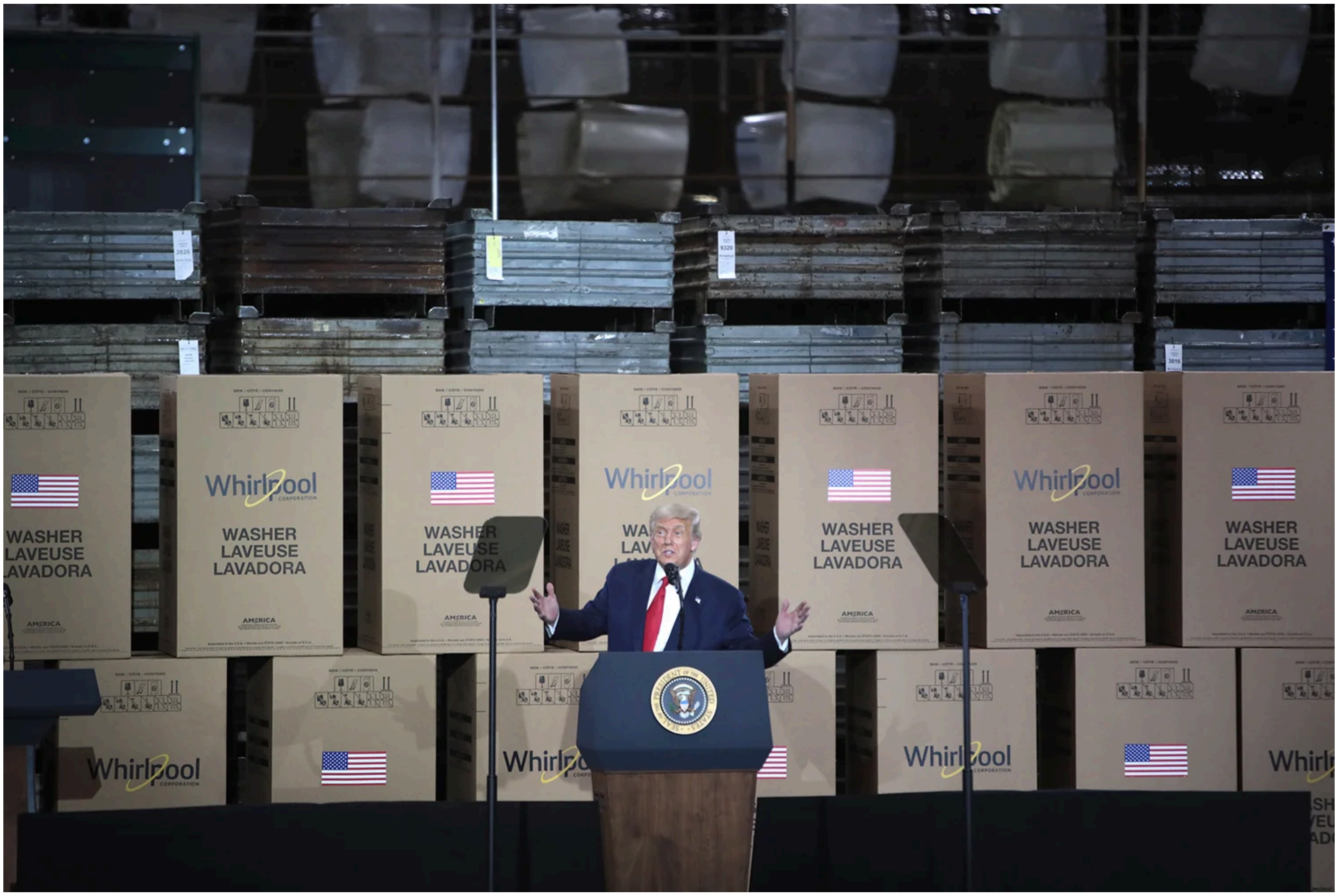
He comes up with a hit list of eight targets: India and China are at the top of the list, followed by the European Union, Thailand, Taiwan, and Vietnam, and then Malaysia and Japan. All but China are U.S. allies or countries the U.S. would like as allies. Strikingly, the list doesn't include Mexico, Canada, or Colombia—Trump's first targets.

Trump's Treasury secretary, Scott Bessent, also would divide the world into different camps when it comes to tariffs. "I think we should make it very clear that there is a green, a yellow, and a red bucket, and we let everyone know where they are [and] here's what we ask of you," he said at a conference at the conservative Manhattan Institute last June.

Even a successful campaign against all the trade miscreants to equalize tariffs, though, would have a small impact on the overall trade deficit. Whether the U.S. raises its tariffs to reach the levels of other countries or they lower their tariffs to U.S. levels, Navarro estimates the overall trade deficit would fall by about 10 percent—not much of a gain for a series of trade battles that would shake markets and threaten global growth and inflation.

Trump talked about a reciprocal trade offensive in his first administration. In 2019, he proposed the United States Reciprocal Trade Act, which would have given him authority to raise tariffs to competitors' levels and used his State of the Union to promote the bill. Navarro led the administration's lobbying effort, but the bill never made it out of committee in the House or Senate, as the White House focused on battling China instead.

This time, Trump has made reciprocity a priority and used one of his first executive orders to launch a series of studies this year that would provide the grounding for his effort. His picks for top trade positions are echoing his priority.



U.S. President Donald Trump speaks to workers at a Whirlpool manufacturing facility in Clyde, Ohio, on Aug. 6, 2020. SCOTT OLSON/GETTY IMAGES

“We are treated horribly by the global trading environment,” Trump’s Commerce secretary-designate, Howard Lutnick, said in his confirmation hearing. “We need to be treated with respect, and we can use tariffs to create reciprocity, fairness, and respect.”

There are plenty of issues to be resolved first, including whether to try to push again for legislation or use trade law or emergency powers to create an across-the-board tariff. Also, what criteria would the administration use to eliminate the tariffs if a trading partner makes concessions? Trump also must decide whether to follow up his initial move with a heavy tariff—a kind of big bang approach—or move gradually.

Bessent, for instance, has talked of phasing in tariffs. Last year, he advocated for a gradual increase of tariffs specifically on China that could eventually reach 60 percent. The *Financial Times* recently reported he is pushing for the same approach when it comes to the universal tariff of 10 percent or 20 percent on all trading partners.

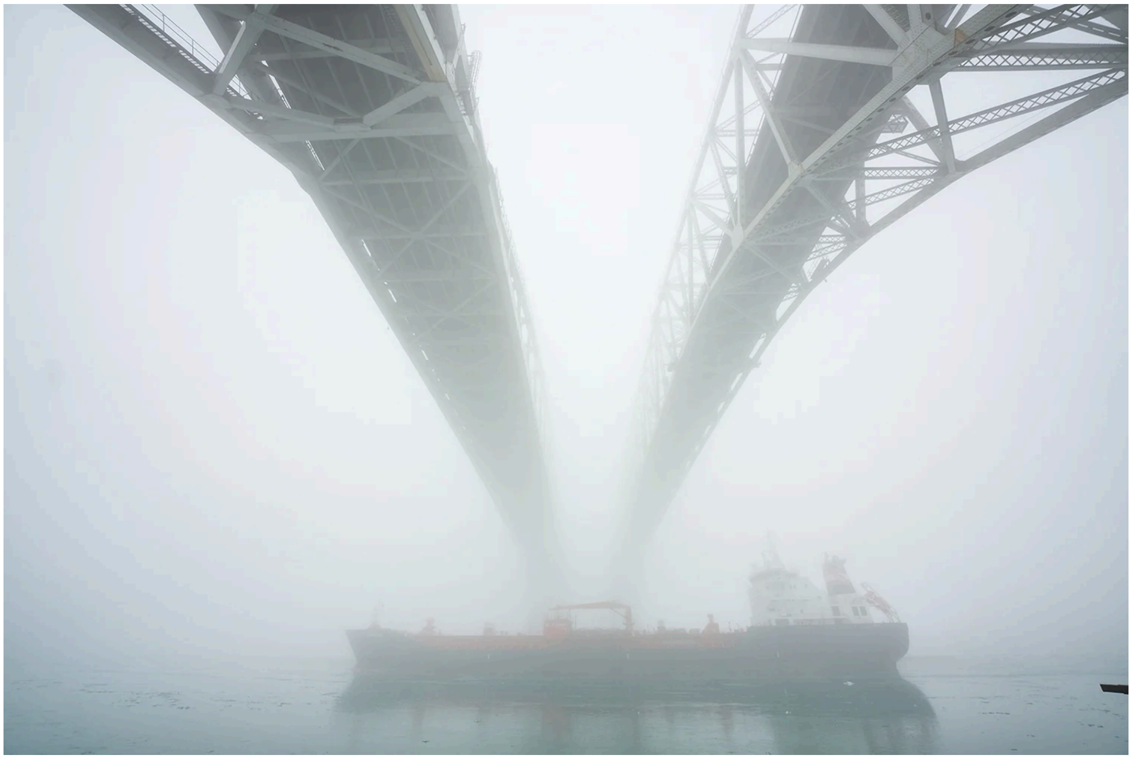
How much to focus on China, too, will surely be a matter of controversy inside the administration. Navarro, who has been the main advocate for a broad reciprocal approach, is also probably the economic team's most fervent China warrior.

Before he joined the administration, he released a promotional video for one of his books that featured a dagger, labeled "Made in China," stabbing the heart of America. He hasn't mellowed since then and has a more powerful role in an administration full of political appointees who lack his knowledge of trade policy and long relationship with Trump.

Jamieson Greer, Trump's pick for trade representative, has called for "selective decoupling" from China and ending that country's trade preferences, known as permanent normal trade relations, which now generally provides China the same tariff rates the U.S. provides other WTO members. Steve Bannon, Trump's former top adviser, would focus on forcing China to accept a much tougher trade deal than the Phase One accord of Trump's first term. Bannon is still close to Trump White House officials.

But Trump has a history of limiting trade coercion of China, at least at first, in hopes of getting its help on other issues. During the first administration, he delayed trade action on China for a year while he sought Xi's help in restraining North Korea, to the consternation of his national security staff. Now he says he wants China's help in pressuring Russia to settle the war in Ukraine.

Beijing is also preparing an offer to buy more U.S. goods, as Trump has long sought, according to the *Wall Street Journal*'s Lingling Wei. China had pledged to buy an additional $200 billion worth of goods over two years as part of the Phase One deal it signed during the first Trump administration but fell 40 percent short of that commitment because of the pandemic and other factors.



A ship makes its way under the Blue Water Bridge border crossing between Sarnia, Ontario, Canada, and Port Huron, Michigan, in the United States, on Feb. 3. GEOFF ROBINS/AFP VIA GETTY IMAGES

Trump never singles out China, his former aides say. He feels that gives Xi plenty of room to make concessions without seeming weak. A small devaluation of the Chinese yuan would eliminate most of the impact of the 10 percent tariff just imposed, for instance.

Market reaction is another reason Trump may be wary of pressuring China too hard from the start. The first year of the Trump trade war against China was a lousy year for stocks and acted as a constraint on Trump's trade threats. The S&P 500 dropped more than 6 percent in 2018, its worst performance in a decade.

"Market volatility also spiked, meaning good days were really good and bad days were really bad," noted financial journalist Jon Hilsenrath. "During one three-month stretch late in the year, the market was down 20 percent."

On Monday, for instance, the Dow Jones Industrial Average fell more than 650 points, reacting to the news of tariffs on Mexico, Canada, and China before bouncing back and finishing at 122.75 points down, or 0.3 percent, after Trump said he was delaying the Mexico levies

"Trump is the X factor on trade in his administration," said Peter Harrell, a former Biden National Security Council official now at the Carnegie Endowment for International Peace. Capitals around the world are plotting their response as Trump shapes his plans for what he calls reciprocal trade.

This post is part of FP's ongoing coverage of the Trump administration. Follow along here.

Bob Davis is a reporter who covered U.S.-China economic relations for decades for the *Wall Street Journal*. He is the co-author of *Superpower Showdown: How the Battle Between Trump and Xi Threatens a New Cold War*.
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